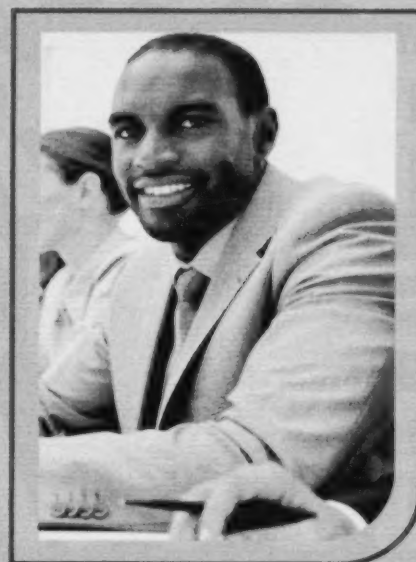
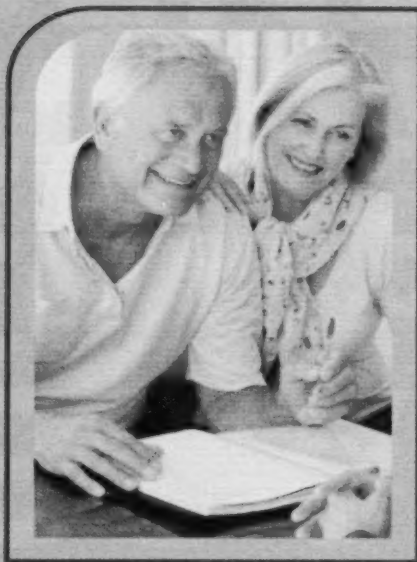


Annual Report to Parliament 2011-2012



Canada Revenue
Agency

Agence du revenu
du Canada

Canada

[a message from the **minister**]

The Canada Revenue Agency (CRA) makes a difference in the daily lives of all Canadians. We administer an equitable and responsive tax system that forms the foundation for long-term prosperity and responsible citizenship in Canada.

Our government is committed to keeping taxes low, investing in jobs and growth, and controlling government spending. In 2011-2012, the CRA continued to implement tax relief measures designed to help individuals and families, such as the children's arts tax credit and the volunteer firefighter tax credit. For businesses, we extended the hiring credit for small business, and improved many of the online services we provide so that small businesses can be free to handle their tax affairs securely, quickly, and according to their own schedule.

Improvements to the CRA's online services during 2011-2012 include a new enquiries service available through My Business Account, where businesses can ask their questions directly to the CRA and we respond to them online and in writing. We also launched the business landing page on our Web site, a one-stop shop for CRA information and services important to businesses—all as part of our effort to cut red tape for small businesses so they can focus on what they do best: creating jobs and economic growth in communities across Canada.

Red tape is costly for all Canadians, hinders economic productivity, and gets in the way of compliance. The CRA has worked closely with the Red Tape Reduction Commission and other federal government organizations to respond to the concerns and suggestions of small businesses. We will continue to consult with businesses in Canada, their associations, and our federal government partners over the coming months as we implement the Government's Red Tape Reduction Action Plan.



The Government of Canada's efforts to reduce the tax compliance burden are having a positive impact. In PricewaterhouseCoopers' 2012 international study, *Paying Taxes 2012: The Global Picture*, Canada ranks higher than any other G-7 country based on the overall ease of complying with tax obligations. PricewaterhouseCoopers also identified Canada as a potential model for other countries' tax systems from the perspective of a business filing and paying taxes.

A focus on performance measurement and the efficient use of resources to identify non-compliance and collect taxes is a solid foundation on which the CRA will continue to build. I welcome the significant progress achieved in the past year to ensure the effectiveness, fairness, and integrity of our tax system.

It is my privilege to table the *Canada Revenue Agency Annual Report to Parliament 2011-2012*.

The Honourable Gail Shea, P.C., MP
Minister of National Revenue

[a foreword by the **chair**]

In the last few budgets, the Government of Canada introduced a number of initiatives, such as government-wide spending reviews and the creation of Shared Services Canada, to reduce government spending while continuing to provide quality services to citizens. The CRA saw this environment of fiscal restraint as an opportunity to redefine its future direction – Vision 2020 – to keep in step with government priorities, global trends, technology and citizen expectations. Vision 2020 is an ambitious plan aimed at strengthening and modernizing how CRA administers tax and benefits for Canadians.

Against this backdrop, during the course of 2011-2012, the Board provided real-time strategic advice and insight on CRA's long-term vision while continuing to ensure that the organization stayed focused on the delivery of its core business. This included overseeing the development of the *CRA Corporate Business Plan for 2012-2013 to 2014-2015* and the Board's review of the impacts, opportunities and risks associated with the transfer of CRA infrastructure services to Shared Services Canada. Given the environment of fiscal restraint, it also meant paying particular attention to CRA's planned allocation of resources, spending, and performance measures to ensure CRA resources were being used in the most efficient and effective way.

The Board also continued to oversee CRA's provision of services, including the security of tax and benefits information. Given public trust is critical to CRA's ability to achieve its mandate, in 2011-2012, the Board provided direction and guidance on the evolution of the CRA's Integrity Framework, and approved the policy framework for security and emergency management, the policy for the protection of employees, information and assets, and the revised discipline policy.



"The Board has consistently worked with the senior management team to ensure CRA resources were used effectively and efficiently in assisting taxpayers and delivering benefits to Canadians."

—Susan J. McArthur

Finally, the Board continued to examine its governance practices to enhance the effectiveness and efficiency of its processes, and increase its engagement in key strategic discussions. This included moving the Board of Management Oversight Framework to a risk-based assessment approach, thereby, enabling the Board to focus on management expectations of strategic importance, such as CRA's readiness for change.

On a personal note, I would like to mention that it was a pleasure to work with the Commissioner and her dedicated management team to help the CRA advance its strategic vision.

On behalf of the CRA Board of Management, I am pleased to recommend this report to the Minister of National Revenue, the Honourable Gail Shea, for tabling in Parliament.

Susan J. McArthur
Chair, Board of Management

[a message from the **commissioner and chief executive officer**]

Each year the Canada Revenue Agency (CRA) collects taxes and delivers benefits and credits on behalf of federal, provincial, and territorial governments, interacting with more individuals and businesses than any other government department or agency. Our work helps Canadians achieve and sustain economic and social well-being. We are committed to delivering high-quality, efficient, and reliable services and to protecting the integrity of our tax system.

2011-2012 was far from a 'business as usual' year for the CRA. We launched Vision 2020, our long term strategic direction to transform the CRA into a leaner and more productive organization, while maintaining top quality, responsive, and transparent services to citizens and to better position the CRA to meet the compliance challenges of a rapidly changing global environment. We also responded to the Red Tape Reduction Commission's mandate to identify new measures to reduce the overall administrative burden on small businesses.

To meet evolving fiscal and business needs, we have been careful to balance our investment in long term objectives with a focus on our core business and day to day operations. Our goal is to make it easier for taxpayers who want to comply, and more difficult for those who try to avoid their obligations. As an organization that values integrity, we also want to provide a transparent and fair response to those who disagree with our decisions.

We responded to what Canadians told us: they want their dealings with the CRA to be easy and efficient. In response, in 2011-2012, we made our Web site easier to navigate and understand, with a focus on plain language. We increased the number of service and communication options on My Business Account and My Account pages to respond to feedback from taxpayers, businesses, and their representatives, while also protecting taxpayer information and the integrity of our systems. Additionally, we completed the first stage in consolidating our information technology services into the newly formed Shared Services Canada.



At the same time, we are very much aware of how important it is to Canadians that everyone pay their fair share of taxes and receive accurate benefits and credits. In 2011-2012, we continued to address the small but persistent non-compliant population. We strengthened our risk-based approach to compliance and further developed tools to help us recognize and deal with non-compliance, both here at home and internationally. As a result of our actions, we recovered over \$40 billion in tax debt over the last year.

Only a small proportion of taxpayers disagree with our service levels or our decisions, but we place the highest priority on responding fairly and accurately to these disputes. The enhancements we have put in place to centralize the distribution of disputes continued to produce improvements in redress service delivery during 2011-2012.

In submitting this report to the Minister for tabling in Parliament, I would like to extend my sincere thanks to the staff of the CRA for their dedication, expertise, and professionalism. Our employees are fundamental to the CRA's ability to continue delivering excellent results that matter to Canadians.

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer
Canada Revenue Agency



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[about the Canada Revenue Agency]

[our mission]

To administer tax, benefits, and related programs, and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.

[who we are]

The Canada Revenue Agency (CRA) administers income tax, goods and services tax/harmonized sales tax (GST/HST), and other taxes, and is the principal revenue collector in the country. We also distribute benefit payments to millions of Canadians.

[we strive to ensure that Canadians...]

- pay their required share of taxes;
- receive their rightful share of entitlements; and
- are provided with an impartial and responsive review of contested decisions.

[our foundation of trust]

Building on our foundation of trust is critical to achieving our mandate. Trust begins with the CRA values that reflect our principles and beliefs and guide our behaviour and practices.

Trust is sustained by our focus on maintaining a fair, open, and transparent tax and benefits administration that serves Canadians with a high degree of accuracy, consistency, and impartiality.

[our contribution to the social and economic well-being of Canada]

A well-functioning tax and benefit system is essential to a healthy economy, a sustainable infrastructure, and a strong democracy.

[2011-2012 highlights]

- We collected approximately \$419 billion in taxes and duties.
- We issued 111 million benefit and credit payments, totalling approximately \$21 billion.
- We identified over \$14 billion in non-compliance.
- We resolved \$40 billion in tax debt.
- We employed 39,505 full-time equivalents.



we issued **111 million** benefit and credit payments
totalling almost **\$21 billion**

we answered **6.9 million** benefit calls
99.9% of benefit payments were received on time

1 [delivering benefits]

The CRA plays a vital role in providing income security to Canadians. We touch the lives of more Canadians than any other government department or agency by assisting families, low- and moderate-income households, and persons with disabilities. We administer a range of ongoing and one-time programs on behalf of federal, provincial, and territorial governments. By ensuring that benefit recipients have access to timely and accurate information, we help them receive their proper entitlements. In 2011-2012, 99.9% of benefit payments were received on time.

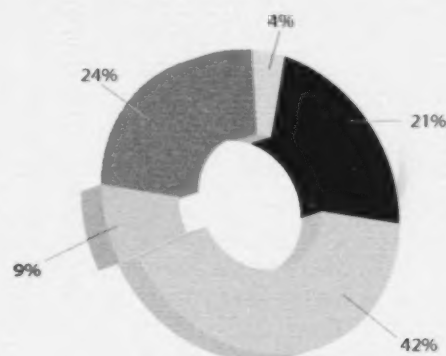
By working on behalf of several levels of government, we reduce duplication and the overall cost of administering benefit programs. We administer 41 payment programs and 81 data exchanges with federal, provincial, and territorial governments.

For example, during 2011-2012, we administered the following programs and services:

- six federal benefit programs, the Canada child tax benefit, children's special allowances, universal child care benefit, goods and services tax/harmonized sales tax credit, the disability tax credit, and working income tax benefit advance payments;
- 25 ongoing benefit programs on behalf of the provinces and territories, including the British Columbia – BC family bonus, New Brunswick child tax benefit, and the Nunavut Child Benefit; and
- several one-time payment credit programs such as the British Columbia climate action dividend and the Ontario sales tax transition benefit.

[spending profile]

Total CRA spending: \$4.351 billion¹



(in thousands of \$)

delivering benefits	\$369,783
assisting taxpayers	\$914,956
addressing non-compliance	\$1,834,907
if you disagree	\$175,064
our corporate foundation	\$1,053,851

¹ This figure represents the actual spending for the CRA on a modified cash basis. Please refer to page 142 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

Given the importance of the benefits we deliver to Canadians, our goal is to ensure that eligible benefit recipients receive the right benefit at the right time. We do this by providing information that is timely and easy to understand, and by enabling benefit recipients to self-serve through our online tools or contact us directly through our call centre network. We also validate eligibility information to ensure that we deliver the right amount of benefits and credits to eligible families and individuals across Canada. Our goal of timeliness and accuracy serves as the foundation for measuring our success.

[providing information]

The CRA's Web site is the primary channel for providing general information and tools to benefit recipients. The site offers information on the different types of benefits and credits available, information on applying online, online calculators, and commonly used forms. For instance, the child and family benefits online calculator gives users an idea of what their benefit amounts will be. We also use an electronic mailing list to notify benefit recipients² when payments will be issued and to remind them of their obligation to notify us when their life situation changes.

self-service

Many benefit recipients prefer to carry out their business with the CRA on a self-service basis, using our secure online portal for individuals, called My Account.

Recipients can manage their benefit information online through My Account by:

- viewing their Canada child tax benefit, universal child care benefit, GST/HST credit, and related provincial and territorial program payments;
- viewing their account balance and statement of account;
- authorizing representatives to act on their behalf;
- arranging for direct deposit; and
- changing their address or marital status.

² This service is available to those who sign up.

Our Quick Access service gives individuals immediate access to some of their information in My Account. This service is a popular method for clients to easily access benefit information. This year there were 1,123, 208 visits to Quick Access pages.

Our Automated Benefit Application (ABA) service, introduced three years ago, has eliminated the need for separate applications for credits that the CRA delivers, including federal and provincial or territorial benefits. Six provinces now use this service, with Manitoba joining in July 2011. Through the ABA service, the CRA receives birth information directly from provincial or territorial vital statistics agencies and uses this information to register Canadian newborns for the benefit and credit programs that we administer. The number of applicants using this service continues to grow.

- In 2011-2012, 92.4% of eligible applicants used this online service.

We continue to work with provinces and territories that are not yet using the ABA service to encourage them to do so.

enquiries

The CRA's telephone services provide general information to taxpayers, and also help taxpayers with more complex enquiries. Taxpayers prefer to find general information themselves on our Web site and then call the CRA if they need further explanation or information on how it applies to their specific circumstances.

In 2011-2012:

- through agent and automated services, we answered 6,919,000 enquiries related to the Canada child tax benefit, GST/HST credit, and provincial programs;
- we met our service standard by answering 76% of our Canada child tax benefit telephone enquiries within two minutes; and
- we exceeded our service standards for accuracy and timeliness in responding to written enquiries and telephone referrals from call centres.

[validating eligibility]

Canadians count on receiving the right amount of benefits on time, so we strive to ensure that we do not cause hardship by overpaying or underpaying them.

We need accurate and up-to-date information from benefit recipients to calculate entitlements correctly. We regularly review accounts and our processing results to verify the accuracy of payments. In addition to checking information with recipients about marital status, child care situations, and income, we use sophisticated risk assessment tools to determine which accounts should be reviewed. During 2011-2012, we reviewed 171,832 high-risk accounts and adjusted 62% of them.

We tell individuals how their accounts will be adjusted so they understand how we calculate benefits and what they are entitled to receive.

[processing]

In 2011-2012, the CRA processed 762,000 applications for a benefit or credit payment and elections to change marital status. We dealt with 756,000 account maintenance adjustments, updating personal information on a benefit recipient's account. We processed 951,000 GST/HST credit account redeterminations.

In addition:

- we issued 111 million benefit payments totalling almost \$21 billion to approximately 12 million recipients; and
- we issued \$915 million in disability tax credits for 587,000 individuals.

Our performance measures for delivering benefits

Our core business outcome				Performance rating	
Canadians have access to the benefits and credits to which they are entitled and related payments are timely and correct				Met	
Indicator	Target	2009-2010	2010-2011	2011-2012	Rating
Percentage of benefit applications and marital status change forms processed on time	98%	98.8%	98.7%	99.0%	Met
Percentage of benefit recipients who receive payments on time	99%	99.7%	99.8%	99.9%	Met
Percentage of Canada Child Tax Benefit (CCTB) recipients who provide complete and accurate information and receive the proper entitlement	95%	94.4%	95.5%	Not applicable¹	Not applicable
CCTB overpayment debt as a percentage of payments issued	<0.4%	0.1%	0.4%	0.6%	Mostly Met
Percentage of CCTB accounts reviewed that were adjusted	50%	53.5%	49.9%	61.7%	Met
Percentage of accurate payments when processing benefit applications and marital status change forms	98%	99.4%	99.8%	99.5%	Met
Percentage of accurate payments when processing account maintenance adjustments	98%	100%	98.2%	96.6%	Mostly Met

Prior year results can be found on the CRA Web site: www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html

¹ The study that produces this result is now performed every two years; the next results will be available for 2012-2013.

[conclusion]

During 2011-2012, we added features to help individuals get quick access to their benefit information. Our work with targeted validation of accounts helped us to ensure entitlements are accurately calculated and to identify outstanding debts. We added services for our government clients, reducing administrative duplication and costs. The results that we achieved during 2011-2012 show that we met our outcome of ensuring that Canadians had access to the benefits and credits they were entitled to, and that related payments were on time and correct.

In 2012-2013, we will continue to improve our online information and interactive services to advance our goal of making it easier for benefit and credit recipients to access information quickly, apply for benefits that they are eligible for, and receive accurate payments.



value of the payments processed was approximately

\$419 billion

we received **87.4 million** visits to our Web site

we answered **16.9 million** general calls

2 [assisting taxpayers]

The Canadian tax system is based on taxpayers determining their tax liability, and filing and paying on time, voluntarily. This self-assessment approach is fundamental to the sustainability of our tax system. For voluntary compliance to work, taxpayers need accurate, accessible information and user-friendly services supported by reliable, timely, and efficient back-office functions.

Third parties are key partners in this system: employers are responsible for deducting and remitting individual income tax for their employees throughout the tax year, financial institutions provide data to help ensure accurate taxation of investment income, and tax intermediaries help over 65%¹ of individuals and businesses prepare their tax returns. In 2011-2012, 91% of individuals filed their tax return on time and 94% paid their taxes on time.

Increasingly, taxpayers and their representatives expect government services to be available online, 24/7, with secure access to their information and the ability to undertake routine and even specialized transactions on a self-serve basis. Most taxpayers still want the option of contacting an agent to ask specific questions and to deal with non-routine enquiries. The CRA responds to these needs and expectations by:

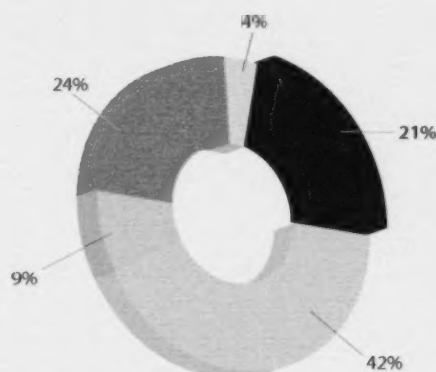
- providing information in a variety of formats to all types of taxpayers and to third parties;
- enabling self-service taxpayer interactions; and
- processing returns and payments quickly and accurately.

Our strategic goal is to make compliance easier for taxpayers and their representatives by providing them with the information and services they need to voluntarily comply with tax laws. We measure our success in assisting taxpayers by reviewing the number of taxpayers who filed and paid taxes on time, the results of our client surveys, and usage rates of our various service channels.

¹ For more information about CRA Annual Corporate Survey go to www.cra-arc.gc.ca/gncy/pr/srvy2012-eng.html.

[spending profile]

Total CRA spending: \$4.351 billion²



(in thousands of \$)

delivering benefits	\$369,783
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² This figure represents the actual spending for the CRA on a modified cash basis. Please refer to page 142 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

[providing information]

web site

The CRA's Web site is our primary channel for providing general information to taxpayers and their representatives. We maintain 155,000 pages of information, which are regularly updated. We also actively search out best practices in Web site management and apply them where feasible and appropriate for our site.

- This past year we received 87.4 million visits to our Web site.

outreach

In 2011-2012, the CRA continued to offer a variety of channels for providing information to taxpayers, such as face-to-face information sessions and webinars, which are Internet-based, interactive presentations. These offer taxpayers important information about starting a small business, registering for a GST/HST account, payroll requirements, preparing T4 slips, and more. They are also available for charities, scientific research and experimental development programs, tax preparers, and tax professionals. We also offer taxpayers a number of online videos about CRA programs and initiatives. We have been expanding the range of information that is available online so that taxpayers can get the information they need when they need it from their home or office.

In 2011-2012, we:

- delivered 26 webinars.
- delivered 3,686 outreach sessions to more than 89,000 participants.
- released a video on our Web site entitled Preparing your Income Tax and Benefit Return.
- released four videos for businesses – Starting Your Business, Payroll Information for a New Small Business, Keeping Records, and Reporting Business Income and Expenses.

social media

The CRA has been steadily building its capacity to offer information through popular social media tools such as YouTube and Twitter. During this year's tax season, we expanded the use of social media. This included tweeting news releases, tax tips, and notices of conviction for tax evasion as well as guiding audiences to content on our Web site. Our messages are commonly re-tweeted to a wider audience, which has further increased the number of CRA followers.

- Tweets during tax filing season reached more than 40,000 users.

In November, we launched a pilot project to progress from merely sharing messages on Twitter to interacting with

followers. We began answering questions and offering assistance by tweeting links to our Web site. Through this exchange, we provided information on more than 20 topics ranging from tax credits to changes of address to finding the nearest tax services office.

did you know? You can discuss and ask questions about general tax topics with the CRA on Twitter.

We also continued to use CRA's YouTube channel to share informative videos about new tax credits like the children's art tax credit and our Netfile service.

- Our YouTube videos were viewed more than 36,500 times during 2011-2012.

[taxpayer interactions]

The CRA helps taxpayers make payments and file returns, and gives them other information they need so that they can comply with Canada's tax laws. We aim to be timely, efficient, and accurate in handling taxpayers' enquiries and transactions. Recognizing that taxpayers are more likely to comply if it is easy to do so, we aim for services that are easy to use and that reduce the compliance burden. Since many taxpayers prefer to use an authorized representative, the CRA provides services to assist tax intermediaries acting on behalf of their clients.

online self-service

Many taxpayers and tax intermediaries prefer to carry out their business with the CRA on a self-service basis, using our secure online portals: My Account for individuals and My Business Account for businesses. Our Represent a Client portal enables tax intermediaries to carry out account-specific transactions on behalf of the individuals and businesses they represent. Our Quick Access service gives individuals immediate access to some of their information in My Account. In recent years, we have made it a priority to enhance our online portals: we see it as key to making compliance easier for individuals and for businesses.

My Account for individuals

- Our Quick Access self-serve Web pages had over 440,000 new unique users in 2011-2012 and about one million accesses each year since it was launched in 2007-2008.
- In 2011-2012, 5,837,173 users successfully logged in to My Account.
- We improved the look and feel to make it easier to navigate.
- We added seven new services and service enhancements to My Account during 2011-2012. Among the added features, My Account users can:
 - change marital status;
 - verify T4 and T4A slips to reduce reporting errors; and
 - view information such as tuition carry forward amounts.

My Business Account

- We added 23 new services and service enhancements to My Business Account during 2011-2012. Among the added features, My Business Account users can:

did you know? Business Numbers can be used with other government partners, such as Ontario's Ministry of the Environment and British Columbia's registry services.

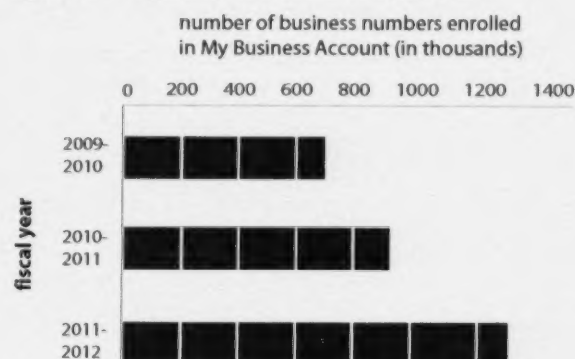
- adjust a previously assessed GST/HST return online or file a GST/HST election online;
- calculate instalment payments for the next filing period;
- transfer payments from one program to another;
- submit account-specific enquiries about GST/HST returns, GST/HST

rebates, T2 corporation returns, and specialty business returns; and

- view account-specific messages through the Message Centre on the My Business Account portal.

- Use of My Business Account has increased significantly since its introduction. In the last three years, the number of businesses enrolled in My Business Account increased by 70.9%.

figure 1 My Business Account enrollment



Represent a Client

- We added new features to the Represent a Client portal to make it easier for tax preparers and professionals to manage accounts and make online requests to view their clients' transactions.

- There has been a substantial increase in the use of our Represent a Client service, which is a positive indicator that intermediaries are embracing this service.

Indicator	2010-2011	2011-2012	Change
Represent a Client – Individual accounts accessed	3,193,919	4,522,971	41.6%
Represent a Client – Business accounts accessed	1,162,177	1,850,268	59.2%

telephone services

The CRA's telephone services provide general information to taxpayers, and also help with more complex enquiries. Taxpayers prefer to find general information themselves on our Web site and then call the CRA if they need further explanation or information on how it applies to their specific circumstances.

- In 2011-2012, through agent and automated services, we answered 16,999,922 calls.

[processing services]

Each year, the CRA receives over 38.6 million tax and information returns from individuals, businesses, and third parties. The CRA processes these returns and enters the information into our systems. The information is used to update taxpayer accounts and determine current status of tax obligations. The returns are then filed for future reference. The CRA also processes over 34.7 million payments from a wide variety of sources and payment methods. Taxpayers count on the CRA to capture information accurately, and to fairly and quickly assess any remaining tax obligations, including any refunds or additional tax payable.

returns

Individuals and businesses continue to shift to electronic transactions.

- The number of corporate and GST/HST returns filed electronically increased by 36.3% and 39.8% respectively in 2011-2012.

- Electronic processing of T4 and T5 information returns increased 2.8% and 32% respectively from last year.

Indicator	2010-2011	2011-2012	Change
Individual – paper	10,649,845	10,089,764	-5.3%
Individual – electronic	16,278,055	16,707,651	2.6%
Corporate – paper	1,052,973	783,824	-25.6%
Corporate – electronic	909,902	1,240,644	36.3%
GST/HST – paper	4,404,311	3,207,180	-27.2%
GST/HST – electronic	3,107,219	4,344,790	39.8%

- 91% of individuals filed their tax return on time.
- 85% of corporations with taxable income filed their tax returns on time.
- 94% of individuals and 90% of corporations paid their reported taxes on time.
- We processed 16.7 million individual tax returns filed electronically within 11 days of receiving them.
- For the 10.1 million individuals who filed paper returns, their returns were processed within 3.9 weeks of receipt.

When reviewing tax returns, we compare the information the taxpayer provided with available third-party information to ensure taxpayers have claimed the credits to which they are entitled. We adjust returns where needed and issue any applicable refund.

- During 2011-2012, we corrected nearly 307,000 individual returns.
- This resulted in an average beneficial adjustment of \$316 per return.

payments

During 2011-2012, the CRA processed about 34.7 million tax payments; 33.4% were electronic payments. The total value of the payments processed was approximately \$419 billion.

Electronic payment makes payment of taxes owing convenient and easy for taxpayers. If taxpayers elect to pay by cheque, the CRA promptly deposits payments so

that taxpayers can be certain of the status of their tax affairs.

- For the greater part of 2011-2012, we exceeded our target of depositing payments within 24 hours of receipt.
- The Canada Post labour dispute in June and July had an impact on our ability to meet our service targets for payment processing. As a result, our average for the year was 94% of payments deposited in 24 hours.
- We processed almost 1.5 million more electronic payments during 2011-2012 than in 2010-2011.
- We promoted the benefits of paying online to taxpayers during the 2011 filing season through the CRA Web site, news releases, videos, Twitter, and our tax filing season fact sheet. Our main message was "Save time, pay online!"

We are investigating future opportunities for improved ease and access for individuals and businesses, and we continue to move forward with our payment strategy to use new, secure technologies where possible.

early certainty

Some taxpayers ask the CRA for written information on how a tax law applies in a specific context. The CRA provides non-binding, written technical interpretations on a particular aspect of tax law to help taxpayers ensure that they are compliant with the transactions they may be considering. Advance income tax rulings on a specific transaction proposed by a taxpayer are binding on the CRA, provided that the taxpayer undertakes the transaction as described. This technical service helps taxpayers by giving them the information they need to conduct their tax affairs with confidence and certainty in Canada and across international borders.

- The turnaround time for technical interpretations to taxpayers met our service standard for the fourth consecutive year.

Meeting our service standard for providing advance income tax rulings within 60 days has proved challenging for the CRA. These rulings often involve issues of great technical complexity and the workload is also often influenced by factors that are beyond the control of the CRA, such as legislative changes and court rulings. To respond, we made changes to the workflow process and

revised our service standard for advanced income tax rulings. These changes set a challenging but realistic service standard for the CRA. We will explore opportunities to reduce workload pressures by providing comprehensive online information services that will give taxpayers the degree of early certainty they need to make informed decisions.

[influencing compliance attitudes]

Helping taxpayers understand the positive outcomes of compliance and the negative consequences of non-compliance is important to voluntary compliance. We need to make sure that taxpayers understand their tax obligations and that they are motivated to comply. The CRA works with partners in government, the community, and industry to help taxpayers understand that paying taxes is a part of responsible citizenship and a healthy economy.

The underground economy is a particular focus of our activities to influence compliance attitudes. A Statistics Canada study³ released in September 2012 found that in 2009, the three most significant sectors of the economy engaging in underground economy activity were construction (29%), retail trade (20%), and accommodation and food services (12%). The CRA provides outreach to businesses and individuals who may be exposed to the underground economy to help them understand the risks.

- The CRA partnered with the provinces of British Columbia, New Brunswick, and Ontario to pilot the Trade School Initiative, a new educational project intended to raise awareness of tax responsibilities for students preparing for careers in the construction and renovation industry.
- The CRA's Get it in Writing campaign reminds homeowners undertaking renovation projects of the protection that a formal contract provides.

3 For more information about Statistics Canada's report, *Estimating the Underground Economy in Canada, 1992-2009*, go to www.statcan.gc.ca/dai-quo/index-eng.htm.

[voluntary disclosures]

The Voluntary Disclosures program gives taxpayers a way to come forward and correct inaccurate or incomplete information. We offer this program as an opportunity for taxpayers to correct earlier mistakes and put their tax affairs in order. Taxpayers using the program have to pay the taxes owing, plus interest, but may avoid penalties and prosecution relating to the amounts disclosed. Information gained from these disclosures is helpful in identifying other taxpayers who may not have correctly identified their tax liability. During 2011-2012, we received

18.4% more voluntary disclosures and identified over \$863 million in unreported income. The surge in cases received is partially attributable to better promotion of the program, but it is also a positive sign that taxpayers are increasingly becoming aware of their tax obligations.

Indicator	2010-2011	2011-2012	Change
Cases received	12,811	15,167	18.4%
Cases processed	13,009	13,633	4.8%
Unreported income identified	\$773 million	\$863 million	11.6%
Cases in inventory	3,507	5,040	43.7%

Our performance measures for assisting taxpayers

Our core business outcome			Performance rating		
Taxpayers have access to the information and the services they need to voluntarily comply with tax laws.			Met		
Indicator	Target	2009-2010	2010-2011	2011-2012	Rating
Average number of days to issue technical interpretation to taxpayers	90 days (avg)	89	87	90	Met
Average number of days to issue an advance income tax ruling to taxpayers	60 days (avg)	98	102	106	Not met
Electronic payments	Upward trend	26.5%	29.7%	33.4%	Met
Percentage of individuals who file electronically	Upward trend	57.9%	60.3%	62.3%	Met
Percentage of GST/HST returns filed electronically	Upward trend	25%	41.3%	57.5%	Met
Percentage of corporations who file electronically	Upward trend	28.5%	46.8%	61.4%	Met
Percentage of general callers who reach our telephone service	90%	91%	92%	91%	Met
Percentage of business callers who reach our telephone service	90%	93%	92%	90%	Met
Percentage of CCTB callers who reach our telephone service	90%	92%	92%	91%	Met
Percentage of GST/HST credit callers who reach our telephone service	90%	91%	91%	90%	Met
Processing excise tax, excise duty, softwood lumber returns, and air travellers security charge return within 90 days	95%	97.0%	97.6%	98.2%	Met
Percentage of funds from non-electronic payments deposited within 24 hours of receipt	96%	96.6%	97.4%	94.1%	Mostly Met ¹
Percentage of T1 individual income tax returns processed accurately	98%	99%	98.8%	98.8%	Met
Taxpayer-requested adjustments reassessed accurately	96%	96.1%	96.1%	96.7%	Met
Response to simple Charities applications within two months	80%	81.9%	87.5%	85.9%	Met
Response to regular Charities applications within six months	80%	79.8%	95.5%	91.3%	Met

Prior year results can be found on the CRA Web site: www.cra-arc.gc.ca/gncy/nnpl/menu-eng.html

¹ The postal disruption in June and July of 2011 prevented the CRA from attaining a met rating.

[conclusion]

The CRA's services to assist taxpayers and their representatives continue to evolve to meet the existing and emerging needs of Canadians. In 2011-2012, we met or mostly met all of our targets for assisting taxpayers, with one exception. The growth in uptake of our online services tells us that the CRA is successfully responding to expectations for electronic self-services. As a result, the CRA considers that it has met its overall objective for assisting taxpayers in 2011-2012. However, we did not meet our service standard for issuing advance income tax rulings: we recognize we need to evolve this service, and our service commitment, to reflect the growing number and complexity of requests.

In 2012-2013, we will continue to use our online information and interactive services to advance our goal of making compliance easier for individuals and businesses, and helping tax intermediaries ably and accurately represent their clients.



we identified **\$14.1 billion** in non-compliance

we resolved **\$40 billion** in tax debt

94% of individuals and **90%** of corporations

paid their taxes on time

3 [addressing non-compliance]

Most Canadians understand the importance of responsible citizenship and the connection between a sustainable tax system and our quality of life.

In 2011-2012:

- 94% of individuals paid their reported taxes on time.
- 91% of individuals filed their tax return on time.
- 90% of corporations paid their reported taxes on time.
- 85% of corporations with taxable income filed their tax return on time.¹
- 94% of businesses were registered for the GST/HST.²

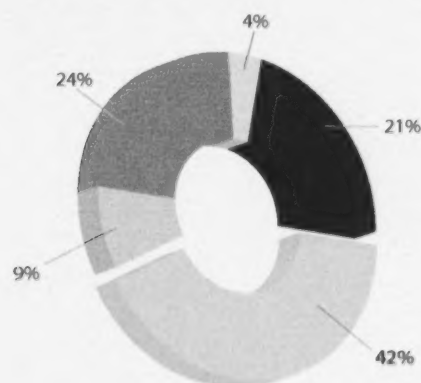
The CRA takes non-compliance very seriously. While most taxpayers meet their obligations, a small percentage do not comply. Some instances of non-compliance are a result of error or misunderstanding. For these situations, we rely on our systems to identify and correct the tax return. We employ a graduated approach of interventions to ensure that non-compliance is addressed as early as possible with the least intrusive involvement. Our risk assessment tools help us select the most effective strategy.

For more complex issues, files are referred to auditors and specialists for review, which sometimes results in a full-scale audit.

- 1 Almost all taxable corporations filed their returns within five years, either voluntarily or as a result of our non-filer work.
- 2 These estimates use the number of businesses that file timely returns on behalf of registrants. The population of businesses includes some small businesses that are not required to register as part of the calculation. As a result, the estimate may understate the proportion of businesses that actually register to collect GST/HST.

[spending profile]

Total CRA spending: \$4.351 billion³



(in thousands of \$)

- delivering benefits
\$369,783
- assisting taxpayers
\$914,956
- addressing non-compliance
\$1,834,907
- if you disagree
\$175,064
- our corporate foundation
\$1,053,851

- 3 This figure represents the actual spending for the CRA on a modified cash basis. Please refer to page 142 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

Specialized program areas also use their advanced knowledge and expertise to identify instances where there is a high risk of non-compliance, and conduct audits of the highest-risk cases. This graduated approach to addressing non-compliance results in the most cost-effective and efficient intervention and imposes the least burden on the taxpayer. Our activities to address non-compliance include:

- early intervention
- complex intervention
- enforcement
- payment of tax debt

Our goal is to ensure that identified non-compliance is addressed. To achieve this goal, we focus a great deal of our effort on early detection and intervention. If we can address non-compliance before the behaviour escalates or becomes habitual, we can reduce the need for more aggressive and complex enforcement actions.

[early intervention]

Information technology, business intelligence, and our risk assessment systems are the cornerstone of our early intervention approach.

In 2011-2012, we processed approximately:

- 27 million individual and trust returns;
- 2 million corporate returns; and
- 7.5 million GST/HST returns.

All tax returns go through an extensive set of system validations for error detection and correction. This allows us to identify certain discrepancies in amounts, deductions, and credits that taxpayers reported on their tax return. We correct errors and omissions through an automated process and send a notice of assessment to the taxpayer explaining the results.

In addition, we use risk assessment models to identify tax returns for further review. We have four major early intervention processing review programs: confidence validity, processing review, individual matching, and the corporate assessing review program.

This early intervention review identified over \$1 billion of non-compliance in 2011-2012, similar to the dollar value identified last year.

The common areas of misunderstanding that we identify in this initial review process are analyzed to detect trends or gaps in services. Where appropriate, this information is entered into our risk assessment systems to help us identify files for more in-depth review.

confidence validity

Our confidence validity program identifies and corrects errors and inadmissible claims on individuals' returns before finalizing a notice of assessment.

- In 2011-2012, we identified an average of \$445 per return in additional taxes assessed, for a total of \$156 million.

processing review

After the notice of assessment for individual income tax is issued, our processing review program selects files that have been identified through our risk-scoring process for more in-depth review of specific elements like tax credits. We then ask taxpayers for more information to verify their claims.

- In 2011-2012, we identified \$213 million in federal, provincial, and territorial taxes through processing review.

matching

This step in our review process compares information we have from third parties with the tax returns that individuals filed. We correct information that is not accurate or complete in the original return.

- In 2011-2012, the matching program generated \$665 million in additional individual tax assessments.

corporate assessing review

This program validates and reviews corporate income tax returns to make sure that assessments are accurate. Since the reviews are conducted soon after the initial assessments are carried out, we find and correct errors early. This process minimizes the risk of paying penalties and interest.

This past year we reviewed 68,222 returns, an increase of 41% from last year, and identified \$51.8 million in additional tax. Our reviews also resulted in adjustments of \$273.8 million to corporate loss pool balances reported on corporation income tax returns.

[complex intervention]

When more serious discrepancies are identified, either through referrals from our early intervention programs or risk assessment within specialized program areas, we refer files to the appropriate centres of expertise for a more intensive review. Business analytics and risk models help to determine the level of intervention needed.

Each of the following represents one of the CRA's more intensive compliance interventions.

source deductions

Employers are responsible for withholding, remitting, and reporting payroll deductions. These monies are deemed to be held in trust by employers until they submit them to the CRA. These transactions are processed through CRA's Payroll Deductions system. Given the significant role that businesses play in collecting taxes on behalf of the CRA, we work to ensure the integrity of this process.

Our Trust Examinations Program reviews and examines source deductions and GST/HST collections by businesses.

In 2011-2012, the total value of identified employer compliance activities was \$1.7 billion, up slightly from the \$1.6 billion we identified last year.

risk and the audit process

Risk assessment is the foundation of the CRA's approach to addressing income tax non-compliance. Generally speaking, audit interventions are reserved for the most serious instances of non-compliance. However, a measured amount of audit resources are also invested in

research audits and other compliance-related projects. These projects allow the CRA to identify emerging risks and to validate the effectiveness of our risk assessments, so that we constantly refine the strategies we use to address risk.

The Research Audit Program is a four-year project that will establish statistically valid compliance rates for various industry sectors and enable us to more accurately identify potential non-compliance in the future.

In the small and medium enterprises sector, we address common compliance issues in higher-risk sectors and write taxpayers to alert them to potential inaccuracies.

In some cases, the letters might be used to explain what type of deductions are permitted under the *Income Tax Act* and the type of documents needed to substantiate such

claims. Businesses are then asked to review their returns and, if they have any questions or concerns, to get in touch with our office. This method of contact with businesses often leads to taxpayers amending their returns and changing their approach to future tax returns.

In 2011-2012, our audit programs identified over \$8.7 billion⁴ in non-compliance by applying a risk-based approach.

- Income tax audits of taxpayers in our small and medium programs identified over \$1.5 billion in non-compliance.
- Income tax audits of taxpayers in our international and large-business programs identified over \$5.6 billion in non-compliance.

gst/hst

Businesses can receive a refund cheque if their input tax credits are higher than the GST/HST collected. In 2011-2012, we implemented a model to improve our

did you know? Fictitious Value Added Tax refund claims are the biggest challenge for tax administrations all over the world. To reduce this risk, we enhanced our pre-payment review of GST/HST refunds.

⁴ Includes GST/HST of \$1.1 billion

pre-payment review of GST/HST refunds by making sure that we screen GST/HST credits and certain debit returns consistently.

- Audit activity related to GST/HST identified over \$1.1 billion in non-compliance.

non-filer/non-registrant

This program is responsible for identifying individuals, corporations, and trusts that do not file tax returns, and businesses that should be registered to collect and remit GST/HST.

We use a graduated approach to address filing and registration non-compliance. This includes sending a letter, calling a taxpayer, or using our specialists to identify taxpayers who have not registered or have outstanding tax returns.

As a result of this program in 2011-2012:

- \$2.6 billion in taxes were identified;
- 630,384 returns were identified and filed;
- 8,569 business were identified and registered for GST/HST; and
- 154,671 GST/HST delinquent filers were identified and addressed.

Our actions contributed to 99% of corporations and 97.5% of individuals filing their returns within five years of the filing due date.

The CRA is always looking at new methods to encourage taxpayers to comply. This year we launched a project to send new GST/HST registrants and employers automated reminders of the dates that their returns and payments were due. We found that the registrants we contacted were 12% more likely to comply than those we did not contact. These results are encouraging and we will continue to test this reminder service for new businesses in 2012-2013.

did you know? You can report suspected tax evasion anonymously by contacting the CRA's informant leads centre.

aggressive tax planning

Aggressive tax planning is a challenge that developed countries are confronting. It can involve very complex structures with both domestic and international elements. It is often arranged by tax planners and promoters for individuals, trusts, and corporations, and may have a legal basis in a technical sense, but it goes beyond what Parliament intended when the laws were passed. In general, aggressive tax planning arrangements are made for the primary purpose of avoiding taxes. Left unchecked, aggressive tax planning is a risk to the integrity and fairness of Canada's tax system.

The CRA has a multi-faceted strategy to combat aggressive tax planning. It includes using specialists at our centres of expertise, working with other tax jurisdictions and the Organisation for Economic Co-operation and Development (OECD), to share information on tax

schemes, identifying legislative amendments to close loopholes discovered during audits, and working with the Department of Finance to negotiate international tax information exchange agreements.

This strategy resulted in identifying \$1.3 billion in fiscal impact in 2011-2012.

Another part of our strategy involves third-party penalties to dissuade promoters from marketing aggressive tax planning arrangements. During 2011-2012, we closed a total of 17 third-party penalty cases. The total value of the penalties applied was in excess of \$2.5 million.

charities

Registered charities in Canada are tax exempt and can issue charitable donation receipts to donors. To keep these privileges, registered charities must file a registered charity information return and financial statements, and they must operate within the parameters of the *Income Tax Act*.

Although cases of serious and intentional non-compliance are not widespread, they do exist. Examples include abusive tax shelter schemes as described in the aggressive

tax planning section, issuing false receipts, and unacceptable fundraising practices.

The level of compliance by registered charities is high and remains stable in comparison to prior years. The long-term filing rate also remains high with the latest data available showing a rate of 98%.

- In 2011-2012, 1,104 registered charities were revoked for failure to file their annual return.
- We completed 713 audits of registered charities.
- Random audits resulted in three charities having their charitable status revoked.

scientific research and experimental development

In 2011, our Scientific Research and Experimental Development (SR&ED) program provided more than \$3.6 billion in tax assistance to over 23,000 claimants, an increase of \$100 million over the previous year. We also ensure that businesses prepare their claims in compliance with tax laws, policies, and procedures. As a result of those efforts, we identified and addressed \$425 million of non-compliance last year.

During 2011-2012, we continued to consolidate and clarify our current SR&ED policy documents and related guidance to help claimants better understand how the program works. Online public consultations ended in February 2012 and we expect to report the results in our 2012-2013 Annual Report to Parliament.

In October 2011, the Research and Development Review Expert Panel released its report to the Government of Canada on its review of federal support for research and development. The panel noted that the SR&ED program plays a fundamental role in lowering the costs of industrial Research and Development (R&D) for businesses, enhancing investment in R&D, and making Canada a more attractive place to locate R&D. The panel also provided

recommendations to the Government of Canada on how to improve support for businesses and help them grow into larger, globally competitive companies. In the 2012 Federal Budget, informed by the advice of the Research and Development Review Expert Panel, the Government of Canada announced a number of legislative measures to simplify the SR&ED program and make it more cost-effective, and administrative measures to enhance the predictability of the program. Over the next few years, the CRA will be implementing these measures.

underground economy

The underground economy is defined as undeclared income that is earned from economic activity that would generally be taxable if it were reported for tax purposes. The underground economy undermines the competitiveness of Canadian businesses because it offers an unfair advantage to those who don't comply with tax

laws. These businesses impose a greater burden on all Canadians for funding social economic programs such as health care and education. Evidence shows that businesses participating in the underground economy also create other problems such as denying employees access to social programs like

employment insurance, the Canada Pension Plan, or Quebec Pension Plan. Consumers are also affected: they have limited legal recourse for products and services provided by businesses participating in the underground economy.

We use a two-part approach to address underground economy activity. First, through our outreach efforts, we educate people and influence their attitude about compliance. Second, we use research such as the 2012 Statistics Canada report on the underground economy, to adjust how we allocate resources to sectors that show the highest risk. This Statistics Canada report⁵ estimated that underground economic activity in Canada was equivalent

did you know? We implemented a new tobacco stamping regime. We informed the public that, effective July 1, 2012, all legal tobacco products in the duty-paid market must have an excise stamp.

to 2.3% of Gross Domestic Product in 2009, which was down from 2.9% in 1992.

This type of non-compliance is complex, so it is important for revenue administrations to share details about different approaches and experiences, successful or not, in dealing with these issues. The CRA continues to work with Canadian and international partners through research, information-sharing, communication, education, and compliance activities to reduce participation in the underground economy.

The CRA led the task group that produced the 'Reducing opportunities for tax non-compliance in the underground economy' report for the OECD Forum on Tax Administration. The report was prepared to help revenue administrations advance their thinking and practices about identifying and handling risks related to the underground economy and electronic payment systems, and to promote discussion and knowledge-sharing on these important issues.

- In 2011-2012, we audited 10,627 underground economy files.
- 80% of the files audited resulted in a tax assessment.
- These audits identified \$513 million of unreported income with an associated fiscal impact of \$260 million.

did you know? The CRA also collects other debts on behalf of federal departments. We collected over \$590 million this past year.

The courts imposed \$6.4 million in fines and 36 years of jail sentences. In addition, 120 income tax and GST/HST investigations were referred to the Public Prosecution Service this past year. Some results are lower than those of previous years because the files are more complex and require more resources to complete.

[enforcement]

The Enforcement program undertakes audits and criminal investigations of those suspected of deriving income from criminal activities and of those who evade taxes.

The CRA addresses these cases of deliberate fraud and in some instances refers cases to the Public Prosecution Service of Canada. Taxpayers may face penalties, court fines, and up to five years in prison.

In 2011-2012, the program conducted 819 enforcement audits that resulted in finding \$67.4 million of additional taxes owing. A total of 137 taxpayers were convicted of tax evasion or fraud, and 24 individuals received prison sentences.

Indicators	2010-2011	2011-2012	Change
Enforcement audits completed	834	819	-1.8%
Referrals to PPSC	129	120	-7.0%
Enforcement actions (including investigations)	3,388	2,820	-16.8%
Public Prosecution Service of Canada conviction rate	100%	95.4%	-4.6%

We issue news releases about convictions on tax evasion to local, regional, and national media to demonstrate that there are consequences to non-compliance and to help maintain public confidence in the integrity of Canada's self-assessment system. In 2011-2012, the CRA distributed 175 news releases on convictions to generate articles and broadcast news topics.

5 For more information about Statistics Canada's report, *Estimating the Underground Economy in Canada, 1992-2009*, go to www.statcan.gc.ca/dai-quo/index-eng.htm.

[payment of tax debt]

The final step in our compliance review process is to ensure that taxpayers pay any amounts due. An effective debt resolution program is a critical element in addressing non-compliance and protecting Canada's revenue base.

Indicators	2010-2011	2011-2012	Change
Gross receipts and receivables (\$ billion)	\$388	\$419	7.3%
Inventory less than one year old / gross receipts and receivables	2.8%	1.8%	-1.0%

We processed approximately \$419 billion in taxes and duties last year. Of this amount, more than \$411 billion was received within the 2011-2012 reporting period. Our receivables inventory that is less than one year old is \$7.5 billion or about 1.8% of the gross receipts.

Over the past five years, our data indicates that most individuals and businesses pay their taxes on time, which continues to surpass our 90% target.

When taxpayers have not met their obligations, we use a range of enforcement actions with varying degrees of intervention.

It has been determined that our ability to collect a debt depends on both timely and efficient debt collection, as the longer the debt exists, the harder and more expensive it is to collect. We rely on approaches that favour swift actions, such as our Debt Management Call Centre, which addresses high-volume, low-risk tax debt at minimal cost, and allows our collection agents in tax services office across Canada to focus on addressing more complex and higher-risk accounts.

Indicator	2010-2011	2011-2012	Change
Individuals who paid their reported taxes on time	94.3%	93.9%	-0.4%
Percentage of payable corporations taxes paid on time	93.5%	89.7%	-3.8%

We continue to pursue more risk-responsive enforcement approaches to address non-compliance in our Accounts Receivable programs. We continue to update our strategies to respond to newer workloads and to increase our efficiency. Initiatives such as the Accounts Receivable National Inventory model, introduced in April 2011, and the professional sector pilot project aim to make our inventory management process more efficient.

- This past year, our tax services office agents resolved 61.6% of this new debt within the year of intake, surpassing our objective of 60%.
- The \$18.4 billion tax debt we resolved in our tax services offices represents 94% of the dollar value of the intake of new debt in the past year.

Indicator	2010-2011	2011-2012	Change
Resolution of tax debt – Automated and call centres (\$ billion)	\$16.4	\$21.6	31.7%
Resolution of tax debt – Tax service offices (\$ billion)	\$17.7	\$18.4	3.9%
Resolution of tax debt – Total tax debt resolved (\$ billion)	\$34.1	\$40	17.3%

Our performance measures for addressing non-compliance

Our core business outcome				Performance rating	
Identified non-compliance is addressed				Met	
Indicator	Target	2009-2010	2010-2011	2011-2012	Rating
Percentage of cases resulting in a change					
International and large business program	90%	95.7%	93.7%	87.4%	Mostly met
Small and medium-sized enterprises	75%	81.1%	80.3%	75.3%	Met
Underground economy	75%	78.9%	78.4%	79.8%	Met
Identified non-compliance					
T1/T2/T3 non-filers and GST/HST non-registrants (\$ billion)	\$2.6 ¹	\$2.8	\$2.8	\$2.6	Met
Employer/Payroll/GST/HST Reviews, Exams and Compliance Audits (\$ billion)	\$1.6 ¹	\$1.6	\$1.6	\$1.7	Met
Fiscal impact² generated per audit FTE (\$ million)					
International and large business ³	\$2.7	\$3.5	\$2.9	\$2.8	Met
Small and medium-sized enterprises ⁴	\$0.35	\$0.40	\$0.39	\$0.45	Met
Other audits	\$0.39	\$0.40	\$0.42	\$0.39	Met
Overall	\$0.9	\$1.15	\$1.02	\$1.01	Met
Payment of tax debt					
Percentage of TSO intake resolved in the year of intake	60%	54.6%	64.4%	61.6%	Met
Dollar value of TSO production as a percentage of dollar value of TSO intake of accounts receivable	90%	95.5%	93%	94.2%	Met
Dollar value of accounts receivable over five years old (\$ billion)	<\$3.5	\$2.9	\$3.4	\$3.4	Met
Volumetrics		2009-2010	2010-2011	2011-2012	
Fiscal impact²					
International and large business (ILB) (\$ billion) ⁵		\$7.0	\$6.1	\$5.6	
Small and medium-sized enterprises (SME) (\$ billion) ⁵		\$1.6	\$1.5	\$1.5	
GST/HST for ILB and SME (\$ billion)		\$0.7	\$0.7	\$1.1	
Other audits (\$ million)		\$599	\$626	\$543	
Overall fiscal impact (\$ billion)		\$9.9	\$8.9	\$8.7	

Prior year results can be found on the CRA Web site: www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html

- ¹ The target is derived from a 3 year average of actual results as reported in the 2008-2009, 2009-2010 and 2010-2011 Annual Report.
- ² Fiscal impact includes current and future tax revenues identified from our audit efforts, including penalties and interest, but excluding the impact of Appeals reversals and payment non-compliance.
- ³ This includes all support staff, auditors, management, and executives who report to the audit functional area.
- ⁴ This includes the fiscal impact generated through our work in addressing the underground economy.
- ⁵ Previous year results have been restated as they included GST/HST, which is now reported separately.

[conclusion]

figure 2 Non-compliance identified through our compliance activities⁶

The CRA implements robust checks and balances that protect Canada's revenue base from intentional and non-intentional non-compliance. We met or mostly met all of our performance measures for addressing non-compliance. The CRA's graduated approach to early intervention, complex intervention, enforcement, and payment of tax debt has proven to be efficient and effective. Long-term filing rates for individuals, corporations, and charities are close to 100%. Our enforcement actions identified \$14.1 billion of non-compliance. We also found that 90% of corporations and 94% of individuals remitted their taxes on time, and our debt management efforts resolved \$40 billion of tax debt.

In 2012-2013, we will focus on higher risk cases. We will also continue to employ a suite of interventions allowing us to address non-compliance as early as possible while imposing the lowest burden on the taxpayer.

⁶ The figure for 2011-2012 does not include results for the GST/HST Delinquent Filer Program.



impartiality
fairness
transparency

4 [if you disagree]

Taxpayers have multiple ways to communicate with the CRA to resolve tax and service related issues.

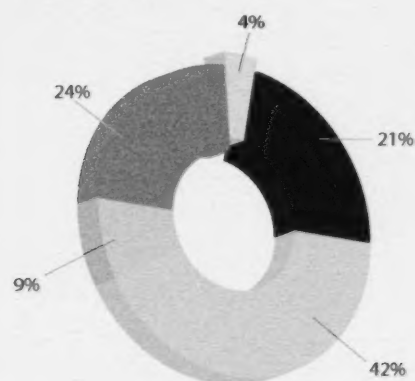
Taxpayers may disagree with the CRA's assessment of their taxes. They might be unhappy with the way the CRA has dealt with a particular issue, or feel that there are extraordinary circumstances or a financial hardship that prevented them from complying and should be taken into account. In addition to a range of informal problem-resolution processes, the CRA offers formal avenues of recourse to those who want to dispute their assessments or resolve a service issue.

To achieve our objective of providing impartial and timely review of contested decisions, we:

- resolve issues related to our services;
- resolve tax disputes; and
- consider requests for providing relief to taxpayers.

[spending profile]

Total CRA spending: \$4.351 billion¹



(in thousands of \$)

delivering benefits	\$369,783
assisting taxpayers	\$914,956
addressing non-compliance	\$1,834,907
if you disagree	\$175,064
our corporate foundation	\$1,053,851

¹ This figure represents the actual spending for the CRA on a modified cash basis. Please refer to page 142 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

[services]

service complaints

Our Service Complaints program helps identify problems and propose solutions, and it provides taxpayers with a formal avenue of redress related to the services they have received. If taxpayers are not satisfied with how we resolved their service complaint, they can then go to the next step and notify the Taxpayers' Ombudsman.

During 2011-2012, the CRA:

- resolved 2,347 service complaints; and
- resolved taxpayers' complaints within 30 business days 94.5% of the time.

We conduct analysis and track trends on service issues so that we continue to improve service and fix the root cause of these complaints. Using public opinion research, we discovered that not many people know about the CRA Service Complaints program. We took the following actions to address this during 2011-2012:

- developed and promoted a CRA brochure on service complaints;
- updated the complaints and disputes pages on the CRA Web site with improved information and easier navigation to make information easier to access by taxpayers, tax intermediaries, and benefit recipients;
- delivered webinars to members of Parliament and their staff about the Taxpayer Bill of Rights and the CRA service complaints process; and
- developed a new CRA brochure about complaints and disputes that will be available in 2012-2013.

did you know? The Taxpayer Bill of Rights is a set of 15 rights that confirm our commitment to serve you with professionalism, courtesy, and fairness.

[disputes]

The CRA manages a function that provides a timely, impartial, and consistent review process to resolve disputes arising from decisions we have made under the laws we administer. We deal with disputes that arise from assessments of income tax, excise tax, goods and services tax, harmonized sales tax, benefit programs, softwood lumber products export, air traveller security, and charities.

During 2011-2012:

- we resolved almost 77,000 disputes; and
- we received 15.6% fewer income tax disputes.

We conduct these reviews by actively engaging in

dialogue with the taxpayer.

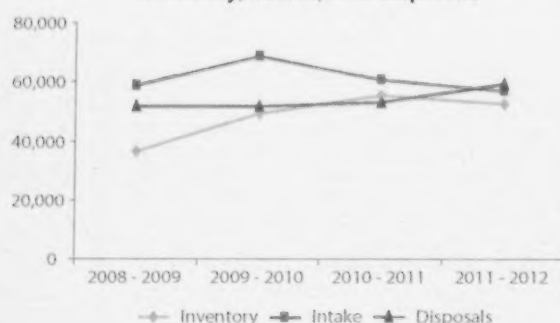
Decisions must be in keeping with applicable legislation and must result in a fair and equitable treatment of taxpayers. To ensure impartiality, when taxpayers file a notice of objection, their review is completed by an appeals officer who was not involved in the original assessment or reassessment.

reviews

The regular redress workload includes objections to income tax

and GST/HST assessments from taxpayers, whether individuals or businesses, corporations, or other entities, that disagree with an initial assessment. We generally receive between 55,000 and 65,000 regular objections a year, and we close a similar number. This workload includes some of CRA's most complex files, and may involve issues such as international transfer pricing and the application of the General Anti-Avoidance Rule.

figure 3 Regular income tax objections – inventory, intake, and disposals



Although intake of regular objections involving income tax assessments continue to rise, recent additional investments in this program have resulted in a reduction of workload inventory, and file completions have exceeded intake for the first time in several years.

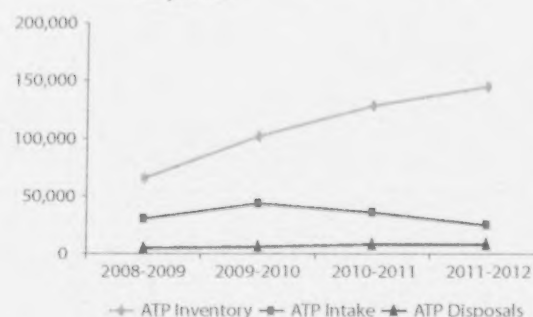
- For our least complex files, we closed 11% more files (from 20,006 to 22,319) and we improved the timeliness of our decision-making.

The CRA sends an acknowledgement letter to taxpayers who use our redress services. The service standard is for the CRA to mail the acknowledgement letter within 30 days 85% of the time. In 2011-2012, we met the standard only 54.7% of the time. We are now considering the feasibility of our standard, given that we have not met the target for this indicator over the past three years.

Objections relating to taxpayers involved in aggressive tax planning activities account for over 70% of our objections workload. We have kept most of these objections on hold until legal cases involving aggressive tax planning are resolved. Only a few lead cases have been resolved by the courts so far.

- Although we continue to receive a steady number of disputes relating to aggressive tax planning, the rate of increase in inventory levels has slowed from 26% in the previous year to 12.5% this year.

figure 4 Aggressive tax planning income tax objections – inventory, intake, and disposals



Over the past few years, we have taken the following actions to manage this work and optimize our redress programs:

- we consolidated intake of the income tax and GST/HST objections to enhance efficiency;
- we treated all lower-complexity income tax and GST/HST workloads as a national workload, allowing it to be assigned to any office that has capacity; and
- we centralized all redress workloads relating to large case files in each region.

Additional resources were strategically dedicated to the resolution of high volume, low complexity workloads, resulting in an increase of 8.4% of objections resolved compared to the previous year. The CRA will continue to add to its resources to resolve the regular objection workload over the next few years.

The CRA is responsible for the administrative review processes in the *Canada Pension Plan* (CPP) and the *Employment Insurance Act* (EI) pertaining to insurability and pensionable employment.

- The average time to resolve a CPP/EI appeal to the Minister of National Revenue fell to 135 days in 2011-2012, an improvement over the 155 days it took during the previous year.

Indicator	2010-2011	2011-2012	Change
Income tax disputes – resolved	61,506	66,655	8.4%
Income tax disputes – intake	94,449	79,761	-15.6%
Commodity tax disputes – resolved	7,613	7,299	-4.1%
Commodity tax disputes – intake	7,385	6,754	-8.5%
CPP/EI disputes – resolved	3,011	2,967	-1.5%
CPP/EI disputes – intake	2,873	3,009	4.7%

litigation

If a matter is not resolved to the taxpayer's satisfaction at the administrative review level, the taxpayer can appeal to the Tax Court of Canada. This level of review is referred to as litigation and is subject to the rules of the Tax Court.

The issues that the Tax Court hears range from the application of the General Anti-Avoidance Rule, to transfer pricing issues, to Aboriginal taxation. In certain circumstances, taxpayers can appeal to the Federal Court of Appeal and Supreme Court of Canada. Among other significant court cases, this year the Supreme Court of Canada upheld the CRA's position on applying the General Anti-Avoidance Rule to corporate amalgamations, and it provided guidance on the scope of tax exemptions under the *Indian Act*.

The Federal Court of Appeal confirmed our Minister's statutory duty to assess GST under the *Excise Tax Act* and resolved the gifting intent that is needed to claim donation tax credits.

In addition to these judicial developments, the CRA collaborated with the Department of Justice on cases before the Supreme Court of Canada involving the residency of trusts under the *Income Tax Act*, the legal test applicable to farming losses under the Act, and the application of transfer pricing provisions under the Act and the guidelines of the Organisation for Economic Co-operation and Development.

[taxpayer relief]

Taxpayer relief provisions allow the CRA to cancel penalties and interest; accept late-filed, amended, or revoked income tax elections; and provide income tax refunds beyond the three-year period normally allowed. These provisions are intended to help taxpayers who are not able to meet their tax obligations because of extraordinary circumstances such as financial hardship, disasters such as floods or fire, or an error in a CRA publication.

In 2011-2012, we raised awareness of our taxpayer fairness instruments by improving our Web site; providing information to tax intermediaries; and reviewing guides, pamphlets, and other publications so that information is clear and consistent for all Canadians.

Taxpayer relief provisions give us some flexibility and allow us to be more responsive in situations where it would be unreasonable or unfair to penalize the taxpayer.

The total value of the relief provided to 204,740 taxpayers amounted to more than \$362 million in 2011-2012.

Our performance measures for redress

Our core business outcome				Performance rating	
Canadians have access to impartial and timely review of contested decisions				Mostly met	
Indicator	Target	2009-2010	2010-2011	2011-2012	Rating
First contact letter for disputes within 30 days	85%	50%	50.5%	54.7%	Not met
Service complaints – acknowledged within 48 hours	90%	97.9%	96.6%	97%	Met
Service complaints – taxpayers contacted within 15 days	90%	94.5%	93.1%	96%	Met
Average age of Appeals workable inventory (in days) – income tax files	Neutral or downward trend	215	228	238	Not met
Appeals activities that met standards for consistency – income tax files	97%	98.6%	98.7%	99%	Met
Appeals activities that met standards for transparency – income tax files	98%	99.7%	98.7%	99%	Met
Taxpayer relief provisions – consistent application (per Quality Assurance Program) ¹	95%	97%	97%	97%	Met

Prior year results can be found on the CRA Web site: www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html

¹ Consistency results for taxpayer relief requests are based on limited sampling size that is anticipated to increase as quality assurance measures mature.

[conclusion]

The CRA is continuing to improve on the time it takes to process disputes. The actions we have taken to centralize the workload distribution of the least complex disputes improved both our timeliness and age of inventory. The number of disputes received decreased last year largely because of the lower number of aggressive tax planning files that we received. Our strategic actions show improvements in the delivery of recourse services. Although we continue to have challenges with processing disputes quickly, we feel that we mostly met this core business outcome.



integrity

responsiveness

accountability

sustainability

5 [our corporate foundation]

Delivering our core business of tax and benefits administration depends on a strong foundation of engaged and productive employees, sustainable and responsive technology, prudent financial management, and accountability for results.

In 2011-2012, we:

- developed the CRA Integrity Framework that includes defining integrity, communicating standards, monitoring activity, and managing integrity lapses;
- worked closely with Shared Services Canada to determine resources and reporting responsibilities to be transferred; and
- further integrated risk management functions into key processes.

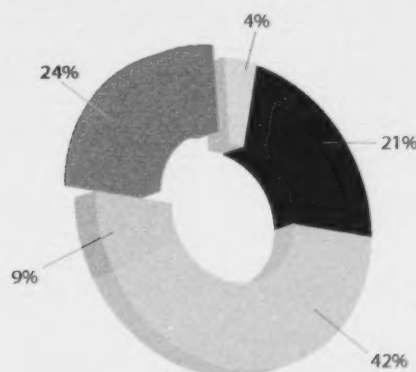
We maintain our corporate foundation by:

- improving our human resources capacity;
- being responsive and sustainable with information technology (IT);
- being accountable and operationally efficient;
- maintaining security;
- applying enterprise risk management;
- contributing to the federal sustainability development strategy; and
- providing management oversight.

Our objective is to enable our core business operations while delivering on our management priorities.

[spending profile]

Total CRA spending: \$4.351 billion¹



(in thousands of \$)

delivering benefits	\$369,783
assisting taxpayers	\$914,956
addressing non-compliance	\$1,834,907
if you disagree	\$175,064
our corporate foundation	\$1,053,851

¹ This figure represents the actual spending for the CRA on a modified cash basis. Please refer to page 142 for an explanation of how this figure relates to the CRA Financial Statements – Agency Activities.

improving our human resources **capacity**

Our success is built on our forward-looking approach to strategic human resources planning and our responsiveness to the changing socio-economic environment. A knowledgeable and mobilized workforce is essential if we want to maintain the trust of taxpayers and deliver core business operations.

strategic planning

In June 2011, we published an updated version of the Agency Strategic Workforce Plan. We identified positions and knowledge areas that are critical for achieving our objectives. They will remain a priority for the CRA in 2012-2013.

We established an Integrity Framework to formalize our culture of integrity in workplace policies, programs, and processes. We launched a communication strategy in late 2011-2012 to promote awareness and understanding of our Integrity Framework among employees.

The CRA's Leadership Continuum initiative ensures that leadership learning and development are strategic and integrated. In 2011-2012, key initiatives of this program included:

- launching a mandatory learning program for newly appointed executives;
- offering "armchair discussions" to address topics of interest to executives; and
- reviewing our Executive Development Program, Middle Management Development Program, and Learning Program.

responsiveness

In 2011-2012, we addressed a number of significant human resource challenges.

- The results of a 2011 referendum in British Columbia will see the return of a provincial sales

tax (PST) and the goods and services tax (GST) on April 1, 2013. We worked with British Columbia to secure provincial employment opportunities for 129 employees who joined the CRA when the harmonized sales tax (HST) was implemented in British Columbia in 2010.

- 817 former Ontario government employees joined CRA offices throughout the Ontario region in March 2012 when the HST was implemented in that province².

information technology **responsiveness** and **sustainability**

The CRA has a strong reputation for excellent and innovative service delivery. Maintaining this reputation requires an ongoing investment in IT as well as the continued advancement of our annual sustainability assessment process to identify the health of our systems and ensure that highest-priority applications receive funding. The return on this

investment is visible in the case of online service offerings. We also invest in less visible innovations that shadow our online offerings. These investments enable our core business operations and contribute to our excellent service delivery.

In 2011-2012:

- we enhanced our protection of taxpayer and benefit recipient information by moving from an older technology to a newer, more secure electronic data file transfer system that transmits close to four terabytes of encrypted data quickly and efficiently;

did you know? You can now securely provide supporting documents electronically to the CRA (e.g., updating marital status through scanned documents).

² Implementation of the HST in Ontario resulted in permanent employees from that province being offered employment at the CRA.

- we completed a project to ensure that our IT system for human resources financial management will continue to provide reliable and efficient support for internal transactions;
- we transferred IT infrastructure services for the CRA to Shared Services Canada;
- we entered into a trilateral arrangement with the Bank of Canada and Public Works and Government Services Canada to ensure sustainability of our data centre services in the National Capital Region from the private sector; and
- we were recognized at the Government Technology Exhibition and Conference as Distinction Award Honourees for five projects.

did you know? We issued our first Agency Security Plan to better manage security risks and protect CRA information.

accountability and operational efficiency

Transparency is important in demonstrating results and maintaining taxpayers' trust. In the past year, we continued to enhance our internal financial controls and our governance structure.

certify the effectiveness of internal controls

In 2011-2012, we devoted significant effort to making sure that we have a strong system of controls over our financial management and reporting.

- We implemented our chief executive officer (CEO) and chief financial officer (CFO) certification process to help ensure that our internal controls and financial reporting are accurate and reliable.
- We completed a risk assessment exercise to identify and address significant enterprise risks.
- Our CEO and CFO signed our first annual Statement of Management Responsibility and annex, including internal controls over financial reporting.
- We issued a detailed report, audited by the Office of the Auditor General of Canada, to the provinces and territories on the design of controls over

financial reporting for the individual income tax program.

- We completed an assessment of the operating effectiveness of controls over financial reporting for our corporate income tax program.

implement the **emergency** management program strategy

In 2011-2012, we enhanced our emergency management practices and governance structure in line with the Emergency Management Act and the Federal Policy for

Emergency Management.

These enhancements will improve our resilience in the event of an emergency.

improving **security**

Security and the protection of information are of utmost importance to the CRA.

In 2011-2012, we:

- adopted a risk-based approach to ensure that highest priorities receive our greatest attention;
- implemented the first phase, and launched the second and third phases, of our Identity and Access Management project. The project focuses on enhancing how we verify identity and provide access privileges only to authorized users, and only to the extent needed to perform their duties;
- continued to modernize our national audit trail system to proactively monitor employees' access to CRA systems and detect questionable transactions; and
- increased the resources allocated to our security and internal affairs function to further strengthen our ability to prevent, detect, and manage breaches of integrity.

advance the **internal fraud control** program

To advance our Internal Fraud Control Program, we:

- updated and communicated our Internal Fraud Control Policy;

- developed a strategy for managing the risk of internal fraud to strengthen and formalize our current practices; and
- developed a method of assessing internal fraud risk to better understand potential vulnerabilities, and to assess and improve the effectiveness of our existing internal controls.

employ enterprise **risk management** consistently and systematically

The CRA incorporates risk management into its decision-making, planning, and reporting processes. Our risks focus on five primary themes:

- protecting the revenue base;
- maintaining public trust;
- enablers: resources, systems, and processes;
- ability to move forward and evolve; and
- capitalizing on information and knowledge.

In 2011-2012, we introduced our Corporate Risk Profile, which combined three enterprise risk reports into one. The new comprehensive 2011 risk profile includes all information about our enterprise risks including action plans for risks requiring mitigation.

Information about actions undertaken to address our risks is included in chapters one to six.

We also strengthened internal partnerships and integrated the risk management function into key corporate processes. Results include:

- mapping our risk profile to the priorities presented in our Corporate Business Plan and program activity architecture;
- integrating risk information and risk management practices into our investment planning and management processes; and

- encouraging continued coordination and information-sharing between our risk and audit functions.

Risk and performance reporting was improved this past year by developing risk snapshots and including them in our risk profile. Risk snapshots provide a concise and complete overview of each risk and are used to monitor and report on risks and their mitigation plans.

contribution to the federal **sustainable development** strategy

We tabled our fifth Sustainable Development Strategy through the CRA *2011-2012 Report on Plans and Priorities*.

The strategy will ensure that we continue to achieve targets set in the federal sustainable development strategy. Over the past year:

- we implemented a national initiative to reduce the number of printing units and achieved a 6:1 average ratio of employees to printing units;
- we achieved 10.5% green procurement for goods and services and reached a 97% level of procurement officers trained in green procurement; and
- we developed a national plan for sound and secure disposal of surplus electronic and electrical equipment.

did you know? We reduced office paper use per employee by an additional 19%, surpassing our internal paper reduction target of 28% from 2005-2006 levels.

management **oversight**

To make sure that we are effectively meeting our responsibilities for accountability, we use two complementary tools: the Management Accountability Framework assessment conducted by the Treasury Board of Canada Secretariat and the Board of Management Oversight Framework assessment conducted by our Board of Management. Together, the two assessment tools provide a complete evaluation of the CRA's management performance. See details of these assessment results at end of this chapter.

The 2011-2012 Management Accountability Framework assessment examined three indicators. The CRA received "strong" ratings for one indicator and "acceptable" for the other two. Our Board of Management conducted its fifth Board of Management assessment. Of the 14 indicators considered, none required attention, two presented an opportunity for improvement, and twelve were found to be "strong" or "acceptable." The positive results of these assessments provide Canadians with assurance that the CRA is actively pursuing management excellence.

[conclusion]

The CRA is a large and mature organization operating in a complex socio-economic context. In the past year, we continued to develop innovative management practices and sound infrastructure. We are confident, based on internal and external assessments and our demonstrated achievements, that we met our objective of enabled core business operations and delivered on our management priorities.

Board of Management Oversight Framework assessment

	2010-2011	2011-2012
Organization of the CRA		
Internal accountability structure	Strong	Strong
Governance	Strong	Strong ¹
Administration of the CRA		
Enterprise risk management	Strong	Strong ¹
Program evaluation	Acceptable	Acceptable
Internal audit	Strong	Strong ¹
Sustainable development	Strong	Strong ¹
CRA performance measurement	Not applicable ²	Opportunity for Improvement
Management of resources		
Financial management	Strong	Strong
Project management	Strong	Strong ¹
Asset management	Strong	Strong ¹
Procurement management	Strong	Strong ¹
Information management (structured)	Not applicable ²	Strong
Information management (unstructured)	Not applicable ²	Opportunity for Improvement
Information technology (investment)	Strong	Strong
Information technology (security)	Strong	Acceptable
Management of services		
Service strategy	Acceptable	Acceptable
Service performance measurement	Acceptable	Acceptable ¹
Service redress mechanism	Strong	Strong
Management of personnel		
Planning	Strong	Strong
Acquisition	Strong	Acceptable
Development and knowledge transfer	Strong	Strong
Retention/mobilisation	Strong	Strong

¹ This expectation was not assessed this year. The rating from the last year that this expectation was assessed is carried-over to the current year.

² Not applicable: Expectation was first introduced in 2011-2012.

Management Accountability Framework assessment

	2010-2011	2011-2012
Managing for results	Acceptable	Acceptable ¹
Governance and Planning	Strong	No longer assessed
Integrated risk management	Strong	Strong
Information management ²	Acceptable	Acceptable
Financial management and control	Acceptable	Acceptable
Management of Security	Strong ¹	Strong ¹
Information technology	Strong	Strong ¹

¹ This area of management was not assessed this year. The rating from the last year that this area of management was assessed is carried over to the current year.

² Effective 2011-2012, the measurement relates to the access to information and privacy program only



oversight
governance

6 [governance]



Members of the Board of Management (left to right)

Bottom row: Sylvie Tessier, Linda Lizotte-MacPherson, Susan J. McArthur, Luce Samoisette, Fauzia Lalani.

Top row: Richard (Rick) Thorpe, James R. Nininger, Richard J. Daw, Norman G. Halldorson, Gordon Gillis, Raymond Desrochers, John V. Firth, Gerard J. Fitzpatrick, Robert (Bob) M. Manning, Myles Bourke.

[overview]

The *Canada Revenue Agency Act* provides for the establishment of a Board of Management consisting of 15 directors appointed by the Governor in Council. The Board oversees the organization and administration of the Canada Revenue Agency (CRA), including overseeing the management of its resources, services, property, personnel, and contracts.

In fulfilling this role, the Board ensures that the CRA has the strategic framework it needs to support its activities, that sound management practices are in place, and that CRA services meet the needs of Canadians in a fair, professional, and respectful manner.

[introduction]

The Governance chapter of the CRA's *Annual Report to Parliament 2011-2012* briefly outlines the Board's contributions to ensure the CRA achieved the business outcomes identified in its *Corporate Business Plan 2011-2012 to 2013-2014*, through a strong foundation of clear accountabilities, prudent financial management, sustainable technology, and a mobilized and productive workforce.

[board's priorities and accomplishments for 2011-2012]

As the CRA entered a period of significant change, the Board provided real-time strategic advice and input on key CRA and government-wide initiatives, while ensuring that management remained focused on core business and service commitments.

Against this backdrop, the Board closely monitored the following challenges:

- the need for the CRA to remain focused on its core business and maintain a sustainable tax and benefit system in the current environment;
- the sustainability and responsiveness of information technology mission-critical systems and infrastructure to ensure they remain secure and reliable, and respond to the increased expectations of Canadians; and
- the need to attract and retain the knowledgeable, engaged, and mobilized workforce required to preserve the trust of taxpayers and deliver core business operations.

The following pages briefly describe some of the Board's accomplishments for each of its five general areas of oversight:

- administration of the CRA;
- organization of the CRA;
- management of resources;
- management of services; and
- management of personnel.

The Board continues to oversee its own governance practices.

[administration of the CRA]

CRA strategy and strategic planning – In the last few budgets, the Government of Canada has committed to

reduce government spending while providing quality, responsive, and transparent services to citizens. In doing so, it introduced a number of initiatives such as government-wide spending reviews and the creation of Shared Services Canada.

The CRA exemplified leadership and foresight in its response to the Government's spending reviews. Well before being asked to provide spending reduction proposals, the CRA had already started work to define its vision for 2020. A CRA-wide planning exercise called "CRA Vision 2020" was designed to lay out the future direction for the CRA and to engage employees in the transformation agenda that would keep the CRA in step with government priorities, technology, and changing citizen expectations. Vision 2020 was instrumental to the CRA in its ability to take a transformative approach to spending reduction proposals by modernizing service delivery, focusing compliance activities to where they add the most value, and maximizing productivity. In this respect, the Board provided guidance and insight on CRA's long term vision and on the development of its *Corporate Business Plan for 2012-2013 to 2014-2015*.

Furthermore, given the Board oversight responsibilities over the management of CRA resources, assets, and personnel, and because information technology is an integral part of the CRA's capacity to effectively and efficiently deliver its programs, in 2011-2012, the Board undertook work to review the impacts, opportunities, and risks associated with the transfer of CRA infrastructure services to Shared Services Canada. In collaboration with senior management, the Board was able to balance the best interests of the CRA with those of the Government of Canada. The Board worked with CRA management to help secure a mutually acceptable operating protocol with Shared Services Canada that would ensure stability during the transition and contribute to a strong and trust-based operating model between the two organizations.

Management oversight – An important tool the Board uses to assess CRA's management performance is the Board of Management Oversight Framework (BoMOF). Over time, the framework has evolved in concert with management best practices. This past year, the Board and CRA management collaborated in moving the framework to a risk-based assessment approach. Doing so allowed

the Board to focus on areas of strategic importance, such as the CRA's readiness for change and the need for a robust measurement framework that supports the CRA business priorities. This year was the Board's fifth assessment of the CRA's management performance and it focused on 14 management expectations. See the details of the assessment at the end of Chapter 5, "our corporate foundation."

[organization of the CRA]

One of the Board's responsibilities in making sure that the CRA has an appropriate internal accountability structure is to set key commitments in senior executive performance agreements. In 2011-2012, the Board set clear performance expectations for the Commissioner/Chief Executive Officer (CEO) at the beginning of the year, monitored progress throughout the year, and assessed performance at the end of the year.

The Board set the following key objectives for the Commissioner/CEO for 2011-2012:

- discussing the CRA's long term strategic direction with the Board;
- improving the CRA's performance measurement framework;
- overseeing the completion of the CRA's Integrity Framework; and
- continuing to align the CRA's human resources planning with its business planning.

The Board also continued to provide input into the performance agreements and assessments of key senior executives including the Chief Financial Officer (CFO), Chief Audit Executive, Chief Risk Officer, and assistant commissioners of the Information Technology, Human Resources, and Strategy and Integration branches.

[management of resources]

Each year, the Board assures itself that the CRA has a rigorous approach to resource management. To this end, the Board monitored the CRA's planned allocation of

resources, performance, and spending, and reviewed both the CRA's overall long term Strategic Investment Plan and its Information Technology Strategy and Plan for 2011-2014.

In addition, the Board assured itself that the CRA continued to improve its controls over financial management and reporting, and the security and protection of taxpayer information. The Board did this by overseeing such matters as the implementation of the CEO/CFO certification process, and approving the CRA's updated Internal Fraud Control Policy; the Policy Framework for the CRA Security and Emergency Management Programs; and the CRA Policy on the Protection of Employees, Information, and Assets.

[management of services]

Since the Canadian tax system is a self-assessment system, it is essential for the Board to ensure that the CRA has a sound management framework for the services it delivers. Such a framework includes performance targets and measures.

The Board oversaw the CRA's provision of services, including the security of tax and benefits information, to ensure the needs of taxpayers and clients were met in a fair and respectful manner. In doing so, the Board reviewed annual updates regarding CRA service standards, reviewed CRA service strategy, and addressed service complaints at the CRA. It also reviewed the third annual report of the Taxpayers' Ombudsman on service-related concerns and engaged with CRA on its efforts to address concerns.

The Board continued to place a focus on the CRA's pursuit of the optimum use of technology, including evolving social media, to provide timely and accessible service offerings and an integrated multi-channel service delivery approach that directs Canadians to the most effective service channel.

[management of personnel]

Against a backdrop of change and workplace renewal, the Board continued to monitor and provide direction to CRA's efforts in talent management, succession planning, and knowledge management.

The Board provided guidance and monitored the CRA's human resources change management strategy to ensure that the CRA was adopting an enterprise-wide approach to manage the people dimension of change while effectively managing the transfer of employees to Shared Services Canada, and the return of British Columbia provincial employees following the province's decision to restore the provincial sales tax.

The Board also provided direction and guidance on the evolution of the CRA's Integrity Framework, which formalizes the CRA's culture of integrity through workplace policies, programs, and processes. This entailed the review and approval of an updated discipline policy and discussion surrounding necessary revisions to the CRA's Code of Ethics and Conduct.

Finally, the Board closely monitored collective bargaining negotiations with the Audit, Financial and Scientific Group of the Professional Institute of the Public Service of Canada, including the review and approval of the CRA's negotiating mandate. As was the case last year when negotiating with the Public Service Alliance of Canada, these negotiations required that the CRA and the Board carefully balance the interests of the CRA while keeping in mind government-wide considerations, including the elimination of severance. A tentative agreement, which has since been ratified, was reached in March 2012.

[board governance]

To maintain leadership in adopting board best practices, the Board continued to examine its governance practices and looked at ways to enhance the effectiveness and efficiency of its processes, while increasing its engagement in key strategic discussions.

In 2011-2012, the Board leveraged its members' expertise and struck two ad-hoc subcommittees, the Operations

Review Advisory Subcommittee and Information Technology-Focused Operations Review Advisory Subcommittee. Both subcommittees provided time-sensitive strategic advice, insight, and guidance to management. Given the challenging environment, a number of ad-hoc teleconferences were held to engage the Board on real-time strategic discussions, in addition to the regularly scheduled teleconferences and meetings.

The Board also held its annual strategic planning meeting with the CRA's senior management to engage in discussions about the CRA's ambitious transformation agenda.

[conclusion]

In 2011-2012, the Board continued to provide strong oversight of the organization and administration of the CRA, including the management of its resources, services, property, personnel, and contracts. The Board also provided management with real-time strategic insights and guidance, positioning the CRA so it can advance its strategic vision, while remaining focused on its core business and mandate.

[board membership]

The Board of Management of the CRA is made up of 15 members appointed by the Governor in Council. They include the Chair, the Commissioner and Chief Executive Officer, a director nominated by each province, one director nominated by the territories, and two directors nominated by the federal government. Members of the Board bring an external and diverse business perspective from the private, public, and not-for-profit sectors to the work of the CRA.

The following are the Board members, as of March 31, 2012.

Susan J. McArthur, B.A., ICD.D

Chair, Board of Management
Senior Investment Banker
Jacob Securities Inc.
Toronto, Ontario

Myles Bourke, B.Comm., FCA

Corporate Director
Lethbridge, Alberta

Richard J. Daw, CFP, CMC, FCA

Executive in Residence
Faculty of Business Administration of Memorial University
St. John's, Newfoundland and Labrador

Raymond Desrochers, B.Comm., CA, CFE

Partner
BDO CANADA LLP Chartered Accountants & Consultants
Winnipeg, Manitoba

John V. Firth, BFA, EPC

Financial Advisor
Roche Firth Financial Services Ltd.
Whitehorse, Yukon

Gerard J. Fitzpatrick, FCA, TEP

Partner
Fitzpatrick & Company Chartered Accountants
Charlottetown, Prince Edward Island

Gordon Gillis, B.A., LL.B.

Corporate Director
Eureka, Nova Scotia

Norman G. Halldorson, B.Comm., CA, FCA

Corporate Director
Clavet, Saskatchewan

Fauzia Lalani, P.Eng.

Executive Consultant
Suncor Energy Services Inc.
Calgary, Alberta

Robert (Bob) M. Manning, BBA

Associate
Owens MacFadyen Group
Saint John, New Brunswick

James. R. Nininger, B.Comm., M.B.A., Ph.D

Corporate Director
Ottawa, Ontario

Luce Samoisette, LL.M., MS Taxation, DDN, LL.B.

President
Université de Sherbrooke
Sherbrooke, Quebec

Sylvie Tessier, B.Sc, M.B.A., P.Eng., ICD.D

Director of Professional Services
Hewlett Packard
Toronto, Ontario

Richard (Rick) Thorpe, CMA, FCMA

Corporate Director
Penticton, British Columbia

Linda Lizotte-MacPherson, B.Comm.

Commissioner and Chief Executive Officer
Canada Revenue Agency
Ottawa, Ontario

[committee membership and director participation]

The Board of Management is supported by four committees that undertake much of the detailed review of items brought before the Board for the Board's consideration. The following table shows the membership of each committee as well as directors' committee attendance over the course of the 2011-2012 fiscal year.

Board members	Board of management ¹ (12 meetings)	Audit committee (6 meetings)	Governance committee (2 meetings)	Human resources committee (4 meetings)	Resources committee (3 meetings)	BoMOF sub-committee (4 meetings) ²
Board members present throughout the fiscal year						
Myles Bourke	12/12	6/6				4/4
Richard J. Daw	12/12	6/6				
Raymond Desrochers	9/12		2/2			
John V. Firth	11/12			4/4		
Gerard J. Fitzpatrick	12/12	6/6				
Gordon Gillis	12/12			4/4		4/4
Norman G. Halldorson	12/12	6/6				
Fauzia Lalani	12/12			4/4	3/3	
Linda Lizotte-MacPherson ³	12/12	5/6 ⁴	2/2	3/4	2/3	3/4
Susan J. McArthur	12/12	6/6	2/2	4/4	3/3	4/4
James R. Nininger	12/12		2/2	4/4		4/4
Sylvie Tessier	12/12				3/3	4/4
Board members who joined during the fiscal year						
Robert (Bob) Manning	1/1					
Luce Samoisette	4/4					
Richard (Rick) Thorpe	4/4					
Board members who departed during the fiscal year						
Camille Belliveau	11/11		2/2		3/3	
James Hewitt	8/8		1/1		3/3	
Average attendance per meeting	97%	97%	100%	96%	94%	96%

¹ All quarterly meetings and regular teleconferences, including the annual Strategic Planning Meeting.

² A sub-committee established to review and approve the BoMOF and perform the BoMOF assessment.

³ Combined attendance for the Commissioner-Chief Executive Officer (CEO) and the interim Commissioner-CEO.

⁴ Commissioner-CEO attends as an observer in regular closed sessions of the Audit Committee.

[board compensation]

Governor in Council rates of pay

Member capacity	Per annum retainer	Per diem
Board chair	\$14,500 – \$17,100	\$565 – \$665
Committee chair	\$11,100 – \$13,000	\$565 – \$665
Director	\$7,300 – \$8,600	\$475 – \$550

Source: www.appointments-nominations.gc.ca

[schedules]

[organizational structure]



The Honourable Gail Shea
Minister of National Revenue

The minister is responsible for the Canada Revenue Agency



Susan J. McArthur
Chair, Board of Management

The Board is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel, and contracts.



Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer

The commissioner is the chief executive officer of the CRA and is responsible for its day-to-day management and direction.

Bill Jones
Deputy Commissioner

The deputy commissioner supports the commissioner and chief executive officer in the day-to-day management and direction of the CRA.

Anne-Marie Lévesque Assistant Commissioner Appeals	Peter Estey Assistant Commissioner Atlantic	Patricia A. MacDonald Chief Audit Executive and Assistant Commissioner Corporate Audit and Evaluation
Dave Bennett Acting Assistant Commissioner Assessment and Benefit Services	Darrell Mahoney Assistant Commissioner Ontario	Filipe Dinis Chief Financial Officer and Assistant Commissioner Finance and Administration
Terrance McAuley Assistant Commissioner Compliance Programs	Maureen Phelan Assistant Commissioner Pacific	Cheryl Fraser Assistant Commissioner Human Resources
Brian McCauley Assistant Commissioner Legislative Policy and Regulatory Affairs	Cheryl Bartell Assistant Commissioner Prairie	Peter Poulin Chief Information Officer and Assistant Commissioner Information Technology
Danielle Morin Assistant Commissioner Taxpayer Services and Debt Management	Gabriel Caponi Assistant Commissioner Quebec	Micheline Van-Erum Assistant Deputy Attorney General Legal Services
		Sandra Lavigne Assistant Commissioner Public Affairs
		Catherine Bennett Assistant Commissioner Strategy and Integration
		Brian Philbin Chief Risk Officer and Assistant Commissioner Enterprise Risk Management

As of March 31, 2012

[service standards]

about our service standards

Canadians' confidence in the integrity of the tax system is essential to the CRA's success. Meeting our service standards shows that we are responsive to the needs of taxpayers and benefit recipients. Our service standards tell citizens what level of performance they can reasonably expect from the CRA under normal circumstances. We review our standards and targets every year and update them as needed.

new service standard Web pages

Over the last year, the CRA posted Web pages that will help taxpayers to find and understand our service standards. In the coming year, we will add links to more information for each service standard, such as mailing address and telephone, teletypewriter, and fax numbers.

The CRA's senior management continues to oversee the development of the CRA's service standards. The Agency Management Committee reviews all new, revised, and retired service standards to make sure that impacts are considered across the CRA.

new service standards

In 2012-2013, we will be introducing three new standards: GST/HST credit enquiries telephone service level, two-day acknowledgements of service complaints, and 30-day resolution of service complaints.

This year, we are linking each service standard in the following table to its new summary page on the CRA's external Web site. We are also reporting on the standards that have not met targets at the end of this section.

our service standard results

Service	Standard	Target	2009-2010	2010-2011	2011-2012	Rating
Assisting taxpayers						
<u>Charities – responding to telephone enquiries</u>	Respond to calls in agent queue within two minutes	80%	89.9%	84.4%	84.2%	Met
<u>Charities – responding to simple applications</u>	Respond to simple applications for charitable registration within two months, upon receipt of a complete application	80%	81.9%	87.5%	85.9%	Met
<u>Charities – responding to regular applications</u>	Respond to regular applications for charitable registration within six months, upon receipt of a complete application	80%	79.8%	95.5%	91.3%	Met
<u>Advance income tax rulings</u>	Issue advance income tax rulings to taxpayers within an average of 60 calendar days of receipt of all essential information	100%	98 days	102 days	106 days	Not met
<u>Technical interpretations</u>	Issue technical interpretations to taxpayers within an average of 90 calendar days of receipt of a request	100%	89 days	87 days	90 days	Met
<u>GST/HST rulings and interpretations – telephone enquiries</u>	Respond to calls in the queue within two minutes	80%	Not applicable	86%	88.0%	Met
<u>GST/HST rulings and interpretations – written enquiries</u>	Respond to written requests for GST/HST rulings and interpretations within 45 business days of receipt in the CRA. This excludes highly technical and precedent and/or policy-setting rulings and interpretations	80%	94.1%	46.5%	41.9%	Not met
<u>Applications to register pension plans</u>	Complete a full review and provide a response on applications to register pension plans within 180 calendar days	85%	86.5%	94.4%	83.9%	Mostly met ¹
<u>Amendments to registered pension plans</u>	Review pension plan amendments for compliance with the <i>Income Tax Act</i> within nine months	80%	67.2%	77.1%	78.7%	Mostly met ¹
<u>Retirement savings plans (applications to register, amend, or terminate)</u>	Respond to applications to register, amend, or terminate retirement savings plans within 60 calendar days	80%	80.1%	86.3%	94.4%	Met
<u>Retirement income funds (applications to register, amend, or terminate)</u>	Respond to applications to register, amend, or terminate retirement income funds within 60 calendar days	80%	92.6%	94%	96.2%	Met
<u>Education savings plans (applications to register, amend, or terminate)</u>	Respond to applications to approve, amend, and terminate education savings plans specimen plans within 60 calendar days	85%	95%	92.1%	97.5%	Met

Service	Standard	Target	2009-2010	2010-2011	2011-2012	Rating
<u>Actuarial valuation reports</u>	Review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions	80%	58.9%	63.4%	50.7%	Not met
<u>Deferred income plans – response to written enquiries</u>	Respond to written enquiries within 60 calendar days	80%	71.4%	85.9%	88.3%	Met
<u>Deferred profit sharing plans – reviewing applications</u>	Review applications to register new deferred profit sharing plans within 180 days	80%	99.4%	100%	98.1%	Met
<u>Deferred profit sharing plans – amendments and terminations</u>	Review requests to amend and to terminate plans within 270 days	80%	52.1%	81.4%	93.7%	Met
<u>General enquiries – telephone service level</u>	Respond to calls in the agent queue within two minutes	80%	81%	82%	80.1%	Met
<u>Business enquiries – telephone service level</u>	Respond to calls in the agent queue within two minutes	80%	86%	84%	81.2%	Met
<u>Responding to taxpayer-requested adjustments (T1)</u>	Complete the adjustment and mail a Notice of Reassessment within an average of eight weeks, provided all requisite information has been received from the taxpayer	100%	7 weeks	7.2 weeks	7 weeks	Met
<u>Responding to taxpayer-requested adjustments (T1) received by Internet</u>	Complete the adjustment and mail a Notice of Reassessment within an average of two weeks, provided all requisite information has been received from the taxpayer	100%	2 weeks	1.8 weeks	1.8 weeks	Met
<u>Processing T1 individual income tax returns (paper)</u>	Process a paper T1 return and mail a Notice of Assessment and refund, if applicable, in an average of four to six weeks	100%	4.3 weeks	3.9 weeks	3.9 weeks	Met
<u>Processing T1 individual income tax returns (EFILE, TELEFILE, NETFILE)</u>	Process electronic T1 returns (EFILE, TELEFILE, and NETFILE) within an average of two weeks of receipt	100%	1.6 weeks	1.7 weeks	1.6 weeks	Met
<u>Processing T3 trust returns</u>	Process T3 trust returns within four months	95%	97.6%	98.5%	98.7%	Met
<u>Processing excise tax, excise duty, softwood lumber returns, and air travellers security charge returns</u>	Assess excise tax, excise duty, softwood lumber returns, and air travellers security charge returns within 90 days of receipt	95%	97%	97.6%	98.2%	Met
<u>Processing GST/HST returns</u>	Process GST/HST returns within 30 calendar days of receipt	95%	Not available	90.3%	91.0%	Mostly met ¹

Service	Standard	Target	2009-2010	2010-2011	2011-2012	Rating
<u>Processing T2 corporation income tax returns</u>	Assess T2 returns (corporation income tax) within 60 days	90%	92.8%	94.5%	95.2%	Met
Addressing non-compliance						
<u>Claims – SR&ED tax incentives – refundable claims</u>	Process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 120 calendar days from receipt of a complete claim for refundable claims	90%	96.3%	96.5%	96.5%	Met
<u>Claims – SR&ED tax incentives – non-refundable claims</u>	Process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 365 calendar days from receipt of a complete claim for non-refundable claims	90%	96%	96.7%	96.7%	Met
<u>Claims – SR&ED tax incentives – claimant-requested adjustments to refundable claims</u>	Process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 240 calendar days from receipt of a complete claim, for refundable claims related to adjustments requested to previously filed income tax returns	90%	97.3%	96.8%	95.1%	Met
<u>Claims – SR&ED tax incentives – claimant-requested adjustments to non-refundable claims</u>	Process claims for tax incentives from businesses that conduct scientific research and experimental development (SR&ED) in Canada within 365 calendar days from receipt of a complete claim for non-refundable claims related to adjustments requested to previously filed income tax returns	90%	95.4%	94.9%	94.5%	Met
<u>Claims – video and film tax credits – refundable claims – unaudited</u>	Review T2 corporation income tax returns that include claims for the Canadian Film or Video Production Tax Credit, the Film or Video Production Services Tax Credit, the BC Film and Television Tax credit, the BC Production Services Tax Credit, the Manitoba Film and Video Production Tax Credit, the Ontario Film and Television Tax Credit and the Ontario Production Services Tax Credit within 60 calendar days from the date of receipt where no audit action is undertaken	90%	92.9%	94.8%	95.9%	Met

Service	Standard	Target	2009-2010	2010-2011	2011-2012	Rating
<u>Claims – video and film tax credits – refundable claims – audited</u>	Review T2 corporation income tax returns that include claims for the Canadian Film or Video Production Tax Credit, the Film or Video Production Services Tax Credit, the BC Film and Television Tax credit, the BC Production Services Tax Credit, the Manitoba Film and Video Production Tax Credit, the Ontario Film and Television Tax Credit and the Ontario Production Services Tax Credit within 120 calendar days from the date of receipt where audit action is undertaken	90%	91.9%	91.2%	79.0%	Not met
If you disagree						
<u>First contact letter for disputes</u>	Acknowledge taxpayer disputes within 30 calendar days after we receive them	85%	50%	50.5%	54.7%	Not met
<u>Problem Resolution Program – acknowledge receipt</u>	Acknowledge receipt of a problem within two business days	95%	97.1%	95.3%	97.6%	Met
<u>Problem Resolution Program – resolution</u>	Resolve the problem within 15 business days. If we cannot (for example, if a case is complex), we will make contact within that time to indicate an anticipated date of resolution	95%	96.6%	95.3%	97.5%	Met
Delivering benefits						
<u>Canada child tax benefit enquiries – telephone service level</u>	Respond to calls in the agent queue within two minutes	75%	75%	76%	76.0%	Met
<u>Processing benefit applications and marital status change forms – timeliness</u>	Issue a payment, notice, or explanation within 80 calendar days	98%	98.8%	98.7%	99.0%	Met
<u>Processing benefit applications and marital status change forms – accuracy</u>	Accurately process the appropriate payment and notice and, if necessary, issue a letter requesting additional information	98%	97.4%	99.1%	98.0%	Met
<u>Responding to benefit and credit enquiries – timeliness</u>	Respond to written enquiries and telephone referrals from call centers within 80 calendar days	98%	93%	94.9%	98.1%	Met
<u>Responding to benefit and credit enquiries – accuracy</u>	Respond to written enquiries and telephone referrals from call centers, with correct information, and accurately process new recipient information, including issuing a payment, notice, or letter	98%	99.3%	98.6%	98.8%	Met

Service	Standard	Target	2009-2010	2010-2011	2011-2012	Rating
<u>Validation and control – Results of review</u>	Inform you of the result of our review within 45 days after we receive the information requested	90%	94.2%	96.4%	98.5%	Met
<u>Processing a request to authorize or cancel a representative – timeliness (peak)</u>	Process your request to authorize or cancel a representative received during peak tax time (mid-March to mid-July) within 20 business days of receipt by the CRA	90%	93.8%	87.1%	90.0%	Met
<u>Processing a request to authorize or cancel a representative – accuracy (peak)</u>	Accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information	98%	99%	99.4%	99.7%	Met
<u>Processing a request to authorize or cancel a representative – timeliness (non-peak)</u>	Process your request to authorize or cancel a representative received during non-peak tax time, (mid-July to mid-March) within five business days of receipt by the CRA	90%	63%	78.2%	88.0%	Mostly met ¹
<u>Processing a request to authorize or cancel a representative – accuracy (non-peak)</u>	Accurately process your request to authorize or cancel a representative; if necessary, we will send you a letter requesting additional information	98%	99%	99%	99.2%	Met
Our corporate foundation						
<u>Taxpayer requests for statistical tax data</u>	Respond to taxpayer requests for statistical data within an average of 30 calendar days.	100%	22 days	14 days	17 days	Met

Prior-year results can be found at www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html

Where service standards are expressed in numbers of days, they refer to calendar days, unless otherwise specified.

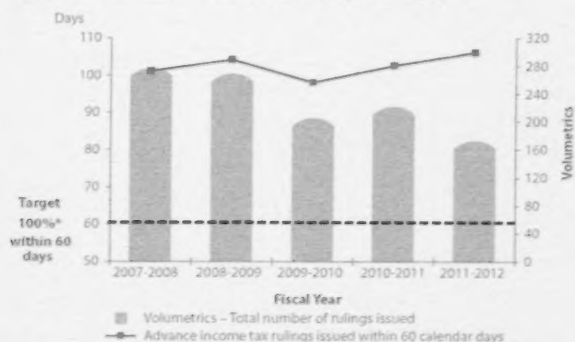
Results for prior years have been revised based on updated information.

¹ At least 95% of target met.

challenges and exceptions

advance income tax rulings to taxpayers

figure 5 Advance income tax rulings to taxpayers



Data quality: good

Standard: Issue advance income tax rulings to taxpayers within an average of 60 calendar days of receipt of all essential information

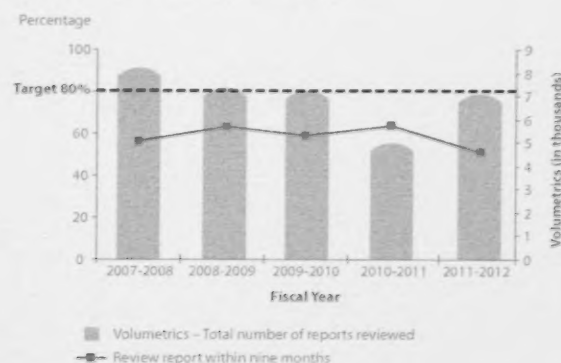
Target: 100%

2011-2012 Result: 106 days

In light of the increasing complexity of the advance income tax rulings files, we will revise our service standard from completing 100% of files within an average of 60 calendar days to completing 85% of files within 90 business days. We expect to meet the revised 85% target by the end of the 2012-2013 fiscal year.

actuarial valuation reports

figure 6 Actuarial valuation reports



Data quality: good

Standard: Review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions

Target: 80%

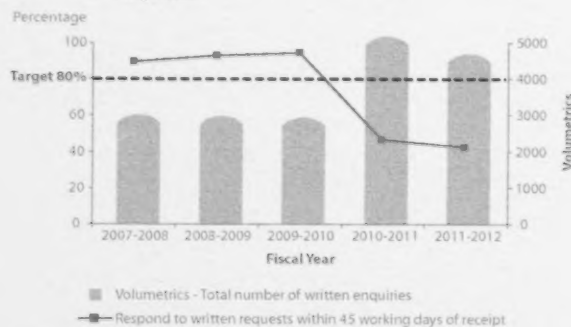
2011-2012 Result: 50.7%

This is a timeliness service standard for reviewing and responding to actuarial valuation reports. For an employer's contributions to a registered defined benefit pension plan to be tax deductible, an actuary must state that the contributions are necessary to pay for the future pension benefits for the employees, and the contributions must be approved by the CRA.

We found significant non-compliance in the actuarial evaluation reports for certain categories of registered pension plans. Resolving this non-compliance increases the average time to complete a submission. Risk-management strategies are now in place to reduce the average time it takes to complete submissions.

GST/HST rulings and interpretations – written enquiries

figure 7 GST/HST rulings and interpretations – written enquiries



Data quality: good

Standard: Respond to written requests for GST/HST rulings and interpretations within 45 business days of receipt in the CRA. This excludes highly technical and precedent and/or policy-setting rulings and interpretations

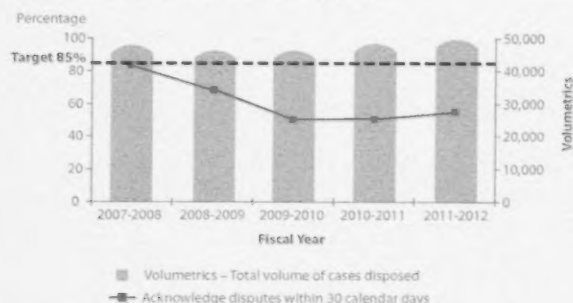
Target: 80%

2011-2012 Result: 41.9%

We did not meet our target of responding within 45 business days for written requests for GST/HST rulings and interpretations. The volume of requests was higher in the last two years than previously due to the introduction of HST in Ontario and British Columbia. We expect to improve our response time now that the volume of requests has begun to reduce to normal levels.

first contact letter for disputes

figure 8 First contact letter for disputes



Data quality: good

Standard: Acknowledge taxpayer disputes within 30 calendar days after we receive them

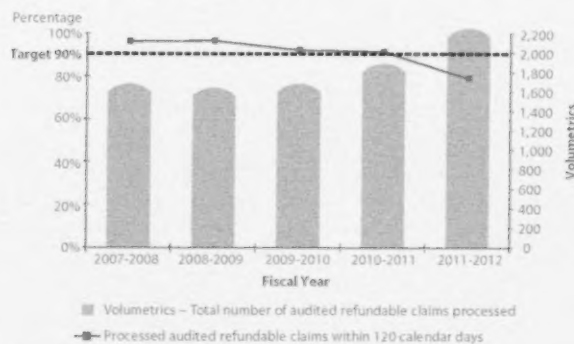
Target: 85%

2011-2012 Result: 54.7%

The service standard is for the CRA to mail an acknowledgement letter to the taxpayer using the redress service within 30 days 85% of the time. In 2011-2012, we met the standard only 54.7% of the time. We are now considering the feasibility of this standard, given the fact that we have had difficulty meeting the target over the last few years.

claims - video and film tax credits - refundable claims - audited

figure 9 Claims - video and film tax credits - refundable claims - audited



Data quality: good

Standard: Review T2 corporation income tax returns that include claims for the Canadian Film or Video Production Tax Credit, the Film or Video Production Services Tax Credit, the BC Film and Television Tax credit, the BC Production Services Tax Credit, the Manitoba Film and Video Production Tax Credit, the Ontario Film and Television Tax Credit and the Ontario Production Services Tax Credit within 120 calendar days from the date of receipt where audit action is undertaken

Target: 90%

2011-2012 Result: 78.9%

We did not meet our target this year. We expect that clarifying and communicating the file completion date will enable us to meet the target next year.

[other items of interest]

The 2011-2012 Annual Report structure

The CRA is funded according to a program activity (PA) structure established with the Treasury Board Secretariat. The Annual Report to Parliament takes a horizontal view of the CRA's activities to provide a holistic and integrated assessment of our results.

The following table shows how the Annual Report to Parliament structure maps to the program activity structure.

Legend: PA1 – taxpayer and business assistance, PA2 – assessment of returns and payment processing, PA3 – accounts receivable and returns compliance, PA4 – reporting compliance, PA5 – appeals, PA6 – benefit programs, and PA7 – internal services

Overarching priorities	Initiatives	Program activity
delivering benefits	providing information	PA6
	validating eligibility	
	processing	
assisting taxpayers	providing information	PA1 & PA7
	taxpayer interactions	PA1 & PA2
	processing services	PA4
	influencing compliance attitudes	
	voluntary disclosures	
addressing non-compliance	early intervention	PA2
	complex intervention	PA1, PA3 & PA4
	enforcement program	PA4
	payment of tax debt	PA3
if you disagree	services	PA5
	disputes	
	taxpayer relief	
our corporate foundation	improving our human resources capacity	PA7
	information technology responsiveness and sustainability	
	accountability and operational efficiency	
	improving security	
	employ enterprise risk management consistently and systematically	
	contribution to the federal sustainable development strategy	
	management oversight	

Detailed tax debt management action plans

These plans track actions to address the recommendations of the Standing Committee on Public Accounts (PACP) and the Office of the Auditor General of Canada (OAG) for how the CRA collects tax debt.

Risk management		
The CRA's strategy to improve the risk management of its collections program will address the OAG's recommendation (8.52) that: "The Canada Revenue Agency should establish a more comprehensive automated risk-scoring system for tax debt, update the risk scores on an ongoing basis, and use the risk scores to prioritize workload throughout the collections process." PACP reference #2		
specific commitment(s) and deliverables	target date	progress
Fully operational risk scores are scheduled for GST/HST programs by 2014	2014	In 2011-2012, work continued on developing risk components including data mining models for the GST/HST business revenue line; GST/HST components are scheduled for completion in 2013-2014 followed by automated deployment in 2014-2015.
Performance reporting		
The CRA's strategy to improve how it reports on the performance of its collections program will address the OAG's recommendation (8.41) that: "The Canada Revenue Agency should significantly improve its management information to make it complete and comprehensive. It should develop reliable techniques and information sources to determine on a regular basis the results of its collection efforts and use that information to guide its decision-making for each of its major collection modes and actions."		
specific commitment(s) and deliverables	target date	progress
Performance reporting tools are scheduled to be progressively implemented throughout all major business revenue lines by 2013-2014	2014	The final component of the Integrated Revenue Collections Phase I, a performance reporting solution, is scheduled for deployment in June 2012. As well, similar development work for GST/HST and T2 Collections prototypes is being completed, with extensive testing and analysis under way.
Debt management research		
The CRA's strategy to improve its debt management research will address the OAG's recommendation (8.28) that: "The Canada Revenue Agency should identify and collect the data it needs to analyze the makeup of its tax debt and to develop better collection strategies." (considering a variety of factors including fluctuations in the economic cycle) PACP reference #4		
specific commitment(s) and deliverables	target date	progress
Enhance business intelligence environment: build enhanced analytical capacity using Integrated Revenue Collection data analysis enhancements by 2013 for business programs	2013	In 2011-2012, Integrated Revenue Collection incorporated the T2 accounts receivable information into the business intelligence environment. Work is under way to incorporate the GST/HST (collections and compliance) and T2 non-filers information into the business intelligence environment, which is scheduled for completion in 2012-2013.
Research into economic indicators: develop research approach and conduct study	Ongoing	In 2011-2012, the debt management research included studies on the T1 non-filer population, economic factors affecting tax debt, and the source and disposition of GST/HST debt.

Benefit programs and benefit-related services delivered by the Canada Revenue Agency

Six federal benefit programs

Canada Child Tax Benefit	Children's Special Allowances
Disability tax credit	Universal Child Care Benefit ¹
Goods and services tax / harmonized sales tax credit	Working income tax benefit advance payments

¹ On behalf of Human Resources and Skills Development Canada

25 ongoing benefit programs for provinces and territories

	1 st year		1 st year
British Columbia – BC family bonus	1996	Nunavut – territorial worker's supplement	1999
Alberta family employment tax credit	1997	Newfoundland and Labrador child benefit	1999
New Brunswick child tax benefit	1997	Newfoundland and Labrador seniors' benefit	1999
New Brunswick working income supplement	1997	Saskatchewan low-income tax credit	2000
Newfoundland and Labrador harmonized sales tax credit	1997	Newfoundland and Labrador – mother baby nutrition supplement	2001
British Columbia – BC earned income benefit	1998	Ontario child benefit	2007
Saskatchewan child benefit	1998	British Columbia low income climate action tax credit	2008
Northwest Territories child benefit	1998	Ontario senior homeowners' property tax grant	2009
Northwest Territories – territorial worker's supplement	1998	Ontario sales tax credit	2010
Nova Scotia child benefit	1998	British Columbia harmonized sales tax credit	2010
Yukon child benefit	1999	Nova Scotia affordable living tax credit	2010
Nunavut child benefit	1999	Ontario energy and property tax credit	2011
		Northern Ontario energy credit	2011

Ten one-time payment programs

	1 st year		1 st year
Relief for heating expenses (federal)	2000	Energy cost benefit (federal)	2005
British Columbia – BC energy rebate	2001	Alberta 2005 resource rebate	2005
Alberta energy tax refund	2001	Ontario home electricity relief	2006
Ontario taxpayer dividend	2001	British Columbia climate action dividend	2008
Nova Scotia taxpayer refund	2003	Ontario sales tax transition benefit	2010

81 data exchange and data transfer services

50 income verification data exchanges with provinces to support programs	Ten National child benefit supplement data exchanges with provinces and territories to facilitate the calculation of social assistance
Five data transfers with provinces to support top-ups for CRA-administered child benefit programs	Two data transfers of income and child information to support administration of the Ontario child care supplement and Quebec family allowance programs
Six data exchanges and transfers to support the new Nova Scotia pharmacare program, the British Columbia low income climate action tax credit, Ontario senior homeowners property tax grant, Ontario sales tax credit, Ontario sales tax transition benefit and to assist the ministère du Revenu du Québec in administering the <i>Quebec Taxation Act</i>	Eight data exchanges and data transfers to support federal administration of the Employment insurance family supplement, Guaranteed income supplement, Canada learning bond, additional Canada education savings grant, Registered disability savings plan and Canadian disability savings grant and Old age security

[acronyms, abbreviations and glossary]

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

A

ABA – Automated benefits applications

AR – Annual Report

ATP – Aggressive tax planning

B

BC – British Columbia

C

Caller accessibility – A measure of the percentage of callers who succeed in accessing our telephone service.

Cancellation – The reversal of a penalty or interest that has already been assessed.

CARP – Corporate assessing review program

CCTB – Canada child tax benefit

CEO – Chief executive officer

CFO – Chief financial officer

Commodity taxes – Federal tax collected on the purchase of goods or services made by the final consumer.

Compliance – Adherence to the law. Total compliance with tax laws includes filing, registration, remittance, and reporting for taxes and benefits in a voluntary, accurate, and timely manner.

Corporate business plan – Outlines the CRA's major challenges, directions, and objectives for a three-year period; the strategies to achieve those objectives; and the performance measures to be used to measure progress.

CPP – Canada pension plan

CRA – Canada Revenue Agency

D

Dispute – General term to designate a disagreement, objection, or appeal to the Minister of National Revenue (for Canada Pension Plan or Employment Insurance rulings or (re)assessments) made by or on behalf of a taxpayer or benefit recipient, related to a CRA decision.

E

EI – Employment insurance

Enforcement – Actions taken by the CRA to identify and address cases of non-compliance.

Entitlement – The amount due an eligible person for a specific period.

F

Fiscal impact – Additional tax identified through our compliance activities. This includes federal and provincial tax (excluding Quebec), federal tax refund offset or reduced, interest and penalties; and present value of future tax assessable.

FTE – Full-time equivalent

Full-time equivalent – A unit measuring a length of time for employment cost purposes in an operating budget. It includes incidental time necessarily used for annual leave, training, etc.

G

Governance – A comprehensive term that denotes the institutions and processes by which an organization is directed or controlled.

GST – Goods and services tax

H

HR – Human resources

HST – Harmonized sales tax

I

ICFR – Internal controls over financial reporting

Indicator – The qualification or quantification of a characteristic that is measured to assess the extent to which an expected result is achieved. It is a means of knowing whether or not we have achieved a desired result.

IT – Information technology

J

K

L

M

Medium enterprises – Individuals or businesses with annual revenues from \$1 million to \$20 million and often involve subsidiary corporations and branch operations.

N

Non-workable file – A file that is awaiting a court decision, a related file that is pending, a file that is awaiting an opinion from a Headquarters appeals office, or (with respect to CPP/EI and tax issues) a file that has been referred to a specialized CPP/EI group for an opinion.

O

OAG – Office of the Auditor General of Canada

OECD – Organisation for economic co-operation and development

P

PA – Program activity

PAA – Program activity architecture

PACP – Standing Committee on Public Accounts

Performance – A term used to define what the CRA did with its resources to achieve its results compared to what the CRA intended to achieve.

Printing units – Includes desktop printers, network printers, and multifunctional devices.

PPSC – Public Prosecution Service of Canada

PST – Provincial sales tax

Q

R

Resolved – The Canada Revenue Agency considers tax and non-tax debt to be resolved once payment has been received or if the CRA writes-off the debt.

Risk – The expression of the likelihood of an event to occur that has the potential to impact the achievement of an organization's objectives. Risk is managed by using a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues.

S

Service standard – A public statement of the level of performance that citizens can expect to encounter from the CRA under normal circumstances.

Set-off – A service provided by the CRA that allows tax refunds and GST/HST credits for individuals to be transferred (set off) to pay debts owed to other federal, provincial, or territorial government programs.

Small enterprises – Individuals who are in business, trusts, and private corporations with less than \$1 million in annual revenues.

SR&ED – Scientific Research and Experimental Development

Strategic outcome – A description of the difference an organization is mandated to make that provides long-term benefits to Canadians.

SSC – Shared Services Canada

T

Tax alert – A tax alert is a media product used by the CRA when it wishes to communicate matters of particular importance to Canadians that are normally time-sensitive and aimed at protecting their interest and providing important information that could directly affect them. This may include information on tax shelters, investments, tax strategies, and fraud that targets taxpayers.

Tax debt – Taxes and other revenues assessed or estimated by the CRA but not yet collected.

Tax-free savings account for individuals (TFSA) – Since January 1, 2009, Canadian residents who are 18 years of age or older with a valid Social Insurance number are eligible to contribute up to \$5,000 annually to a Tax-free savings account.

Taxpayer relief provisions – Legislation introduced in the early 1990s that provides relief (e.g., forgiveness of interest and penalties) to taxpayers in specific circumstances beyond their control.

Taxpayer segments – Groups of taxpayers who have common compliance requirements and characteristics, service needs, preferences for accessing information or services, or expectations of the CRA, such as individuals; small, medium, and large businesses, both incorporated and unincorporated; and charities.

Tax shelter – Tax shelters are defined in the *Income Tax Act*. In very general terms, a tax shelter includes either a gifting arrangement or the acquisition of property where it is represented to the purchaser or donor that the tax benefits and deductions arising from the arrangement or acquisition will equal or exceed the net costs of entering into the arrangement or the property. Also, a gifting arrangement where the donor incurs a limited recourse debt related to the gift is considered to be a tax shelter. Generally, a limited recourse debt is one where the borrower is not at risk for the repayment.

TC – Tax centre

TSO – Tax services office

T1 – Income tax return for individual

T2 – Corporation income tax return

T3 – Trust return

T4 – Statement of remuneration paid

T4A – Statement of pension, retirement, annuity, and other income

T5 – Return of investment income

U

UE – Underground economy

Underground economy – Economic activity that is neither reported nor recorded.

V

Visit – A series of actions that begin when a visitor views their first web page and ends when they leave the site, or after 30 minutes of inactivity.

Voluntary disclosures program – A program that provides taxpayers with the opportunity to correct past errors or omissions and to report, without penalty or prosecution, their tax obligations to the CRA.

W

X

Y

Z

Statement of Management Responsibility Including Internal Control over Financial Reporting

We have prepared the accompanying financial statements of the Canada Revenue Agency (CRA) according to accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in note 2 to the financial statements. Some of the information included in the financial statements, such as accruals and the allowance for doubtful accounts, is based on management's best estimates and judgment, with due consideration to materiality. The CRA's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the Public Accounts of Canada and included in the CRA's Annual Report, is consistent with these financial statements.

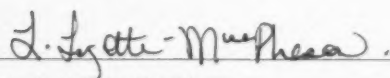
To fulfill its accounting and reporting responsibilities, management maintains sets of accounts which provide records of the CRA's financial transactions. Management also maintains financial management and an effective system of internal control over financial reporting (ICFR) that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament, and by others such as provinces and territories, are executed in accordance with prescribed regulations and the *Financial Administration Act*, and are properly recorded to maintain the accountability of funds and safeguarding of assets.

Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The CRA also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization, and by conducting an annual assessment of the effectiveness of its system of ICFR. An assessment for the year ended March 31, 2012 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments. The effectiveness and adequacy of the CRA's financial management and its system of internal control are reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the CRA's operations and by the Board of Management which is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts independent audits and expresses separate opinions on the accompanying financial statements which do not include an audit opinion on the annual assessment of the effectiveness of the CRA's internal controls over financial reporting.

Approved by:

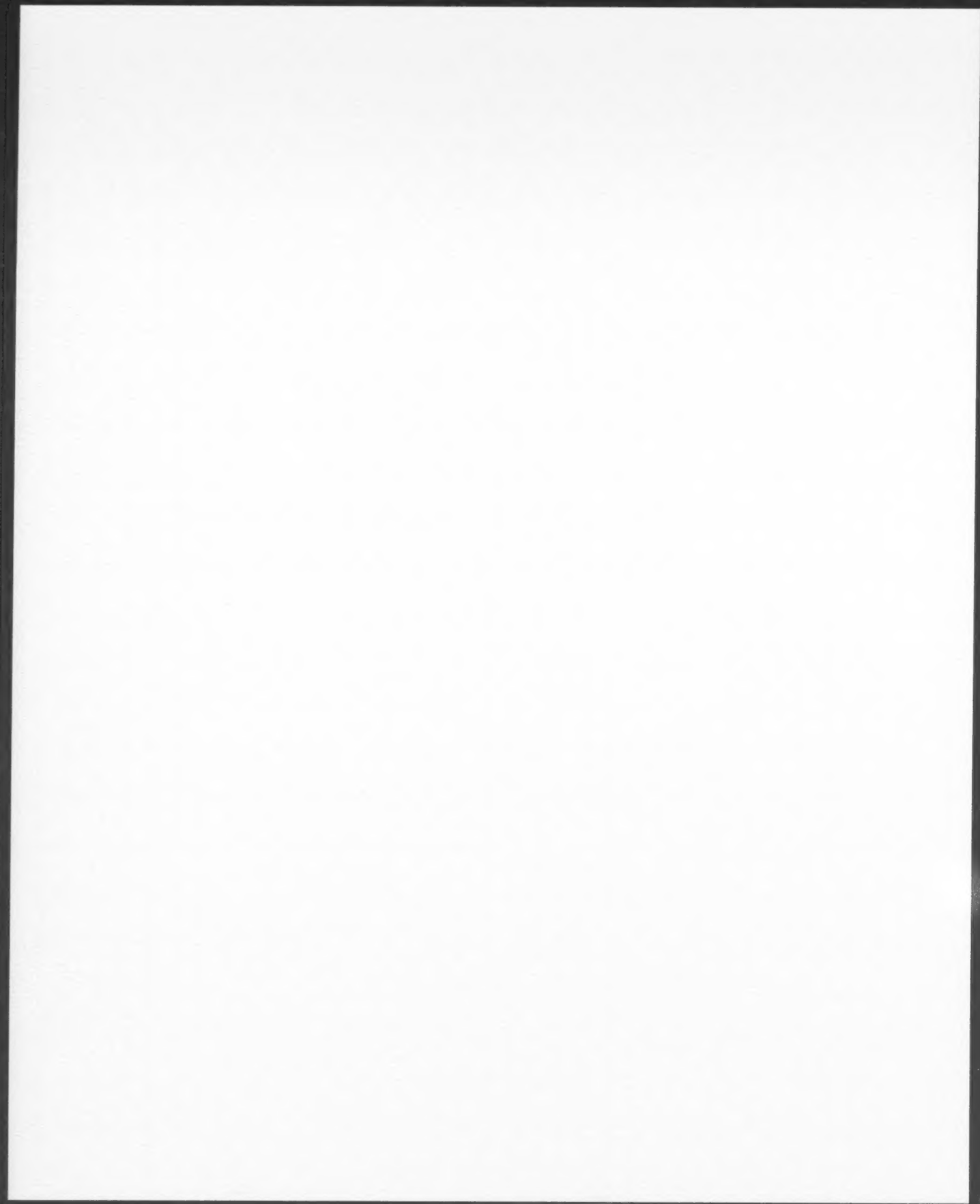


Linda Lizotte-MacPherson
Commissioner and
Chief Executive Officer



Filipe Dinis
Chief Financial Officer and Assistant Commissioner,
Finance and Administration

Ottawa, Ontario
August 28, 2012



Canada Revenue Agency
Audited Financial Statements –
Agency Activities



Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying financial statements of the Agency Activities of the Canada Revenue Agency, which comprise the statement of financial position as at 31 March 2012, and the statement of operations and agency net financial position, statement of change in agency net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at 31 March 2012, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read "Michael Ferguson". The signature is fluid and cursive, with a large initial "M" and a stylized "F".

Michael Ferguson, FCA
Auditor General of Canada

28 August 2012
Ottawa, Canada

Statement of Financial Position – Agency Activities

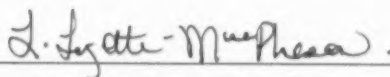
as at March 31
(in thousands of dollars)

	2012	2011
Liabilities		Restated (note 13)
Accrued salaries	78,257	56,568
Accounts payable and accrued liabilities (note 4)	152,187	184,086
Lease obligations for tangible capital assets	-	13,304
Vacation pay and compensatory leave	182,977	180,775
Employee severance benefits (note 5c)	732,313	633,270
Total liabilities	1,145,734	1,068,003
Financial assets		
Cash	77	84
Due from the Consolidated Revenue Fund	175,851	223,385
Accounts receivable and advances (note 6)	8,382	7,737
Total financial assets	184,310	231,206
Agency net debt	961,424	836,797
Non-financial assets		
Prepaid expenses	12,953	21,940
Tangible capital assets (note 7)	403,936	539,471
Total non-financial assets	416,889	561,411
Agency net financial position	544,535	275,386

Contingent liabilities (note 14)

The accompanying notes form an integral part of these financial statements.

Approved by:



Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer



Susan J. McArthur
Chair, Board of Management

Statement of Operations and Agency Net Financial Position– Agency Activities

for the year ended March 31
(in thousands of dollars)

	2012	2012	2011
	Planned results	Actual	Actual restated (note 13)
Expenses (note 8)			
Internal services	1,375,306	1,294,021	1,275,654
Reporting compliance	1,144,812	1,169,468	1,127,551
Accounts receivable and returns compliance	677,467	744,875	666,591
Assessment of returns and payment processing	734,573	741,313	753,351
Taxpayer and business assistance	372,922	401,374	396,298
Appeals	221,004	244,381	231,465
Benefit programs	152,342	160,021	151,882
Taxpayer's Ombudsman	3,839	2,988	2,788
Total expenses	4,682,265	4,758,441	4,605,580
Non-tax revenue (note 9)			
Internal services	286,508	224,935	239,788
Reporting compliance	18,215	30,905	23,456
Accounts receivable and returns compliance	154,781	165,165	158,668
Assessment of returns and payments processing	54,809	81,265	77,007
Taxpayer and business assistance	54,848	58,837	57,873
Appeals	17,795	18,974	19,747
Benefit programs	19,778	42,271	33,738
Revenues earned on behalf of Government (note 13)	-	(62,712)	(59,670)
Total non-tax revenue	606,734	559,640	550,607
Net cost of operations before government funding and transfers	4,075,531	4,198,801	4,054,973
Government funding and transfers			
Net cash provided by the Government of Canada (note 13)		3,758,224	3,683,373
Change in due from the Consolidated Revenue Fund		(47,534)	42,173
Services provided without charge from other government agencies and departments (note 10)		321,788	261,489
Transfer of assets and liabilities to Shared Services Canada (note 11)		(38,651)	-
Net cost of activities administered on behalf of Shared Services Canada (note 11)		(64,175)	-
Total government funding and transfers		3,929,652	3,987,035
Net cost of operations after government funding and transfers		269,149	67,938
Agency net financial position - Beginning of year		275,386	207,448
Agency net financial position - End of year		544,535	275,386

The accompanying notes form an integral part of these financial statements.

Statement of Change in Agency Net Debt – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2012	2011
Net cost of operations after government funding and transfers	269,149	67,938
Change in tangible capital assets		
Acquisition of tangible capital assets (note 7)	81,390	110,351
Amortization of tangible capital assets (note 7)	(94,770)	(94,564)
Proceeds from disposal of tangible capital assets	(482)	(314)
Net loss on disposal/write-off of tangible capital assets	(19,821)	(6,427)
Retirement of tangible capital assets lease obligations	(8,924)	-
Transfer of tangible capital assets to Shared Services Canada (note 7)	(92,928)	-
Total change in tangible capital assets	(135,535)	9,046
Change in prepaid expenses	(8,987)	4,641
Net increase in agency net debt	124,627	81,625
Agency net debt - Beginning of year	836,797	755,172
Agency net debt - End of year	961,424	836,797

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows – Agency Activities

for the year ended March 31
(in thousands of dollars)

	2012	2011
		Restated (note 13)
Operating activities		
Net cost of operations before government funding and transfers	4,198,801	4,054,973
Items not affecting cash		
Amortization of tangible capital assets (note 7)	(94,770)	(94,564)
Net loss on disposal/write-off of tangible capital assets	(19,821)	(6,427)
Services provided without charge from other government agencies and departments (note 10)	(321,788)	(261,489)
Change in financial assets other than due from the Consolidated Revenue Fund	638	(35,446)
Change in prepaid expenses	(7,533)	4,641
Change in liabilities other than lease obligations for tangible capital assets	(110,322)	(89,780)
Cash used by operating activities	3,645,205	3,571,908
Capital investing activities		
Acquisition of tangible capital assets funded by current year appropriations (note 3b)	51,159	101,093
Acquisition of tangible capital assets not funded by current year appropriations	30,231	9,258
Proceeds from disposal of tangible capital assets	(482)	(314)
Cash used by capital investing activities	80,908	110,037
Financing activities		
Increase in lease obligations for tangible capital assets	(30,077)	(5,503)
Payment of lease obligations for tangible capital assets	5,287	6,931
Cash used (provided) by financing activities	(24,790)	1,428
Cash used by CRA operations	3,701,323	3,683,373
Shared Services Canada (note 11)		
Operating activities	45,659	-
Capital investing activities	8,466	-
Financing activities	2,776	-
Cash used on behalf of Shared Services Canada	56,901	-
Net cash provided by the Government of Canada	3,758,224	3,683,373

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements – Agency Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice, and services by:

- (a) supporting the administration and enforcement of program legislation;
- (b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA collects revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and collects amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In delivering its mandate, the CRA operates under the following program activities:

- (a) Internal services: Provides internal services across the CRA, such as human resources management, financial management and information technology, to support the needs of programs and corporate obligations;
- (b) Reporting compliance: Verifies complete and accurate disclosure by taxpayers of all required information to establish tax liabilities;
- (c) Accounts receivable and returns compliance: Identifies and addresses non-compliance with taxpayer filing and remittance requirements;
- (d) Assessment of returns and payment processing: Processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and, receives payments;
- (e) Taxpayer and business assistance: Assists taxpayers in meeting their obligations under the self-assessment;
- (f) Appeals: Provides a dispute resolution process for taxpayers who disagree with decisions taken by the CRA;
- (g) Benefit programs: Provides Canadians certain income-based benefits, credits and other services on behalf of federal, provincial (except Québec), and territorial governments;
- (h) Taxpayers' Ombudsman: Addresses requests for reviews made by taxpayers and benefit recipients with respect to service matters.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The Financial Statements - Agency Activities include those operational revenues and expenses which are managed by the CRA and utilized in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The purpose of the distinction between agency and administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the CRA in achieving its mandate. Tax-related assets, liabilities, revenues and expenses are excluded from these financial statements because they can only accrue to a government, not to the tax agency that administers those transactions.

As required by the *Canada Revenue Agency Act*, the Financial Statements - Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are based on Canadian public sector accounting standards. A summary of significant accounting policies follows:

(a) Parliamentary appropriations

The CRA is financed by the Government of Canada through Parliamentary appropriations. Accounting for appropriations provided to the CRA does not parallel financial reporting according to Canadian public sector accounting standards, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position may be different from those provided through appropriations from Parliament. Note 3(b) provides a high-level reconciliation between the two bases of reporting. The planned results in the Statement of Operations and Agency Net Financial Position are the amounts reported in the Future-oriented Financial Statements - Agency Activities included in the 2011-2012 Report on Plans and Priorities.

(b) Net cash provided by the Government of Canada

The CRA operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CRA is deposited to the CRF and all cash disbursements made by the CRA are paid from the CRF. The net cash provided by government is the difference between all spendable cash receipts and all cash disbursements including transactions with departments and agencies.

(c) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

(d) Services provided without charge from other government agencies and departments

Estimates of the cost for services provided without charge from other government agencies and departments are included in expenses.

(e) Revenue recognition

Non-tax revenue is recognized when the services are rendered by the CRA.

Non tax revenues that are not available for spending cannot be used to discharge the CRA's liabilities. While management is expected to maintain accounting control, it has no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the CRA's gross revenues.

(f) Vacation pay and compensatory leave

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

(g) Employee future benefits

(i) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The CRA's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The CRA's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the CRA. Current legislation does not require the CRA to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

(ii) Health and dental benefits

The Government of Canada sponsors an employee benefit plan (health and dental) in which the CRA participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The CRA's contributions to the plan, which are provided without charge by the Treasury Board Secretariat, are recorded at cost based on a percentage of the salary expenses and charged to personnel expenses in the year incurred. They represent the CRA's total obligation to the plan. Current legislation does not require the CRA to make contributions for any future unfunded liabilities of the plan.

(iii) Severance benefits

Some employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. These benefits represent an obligation of the CRA that entails settlement by future payments. The obligation resulting from the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the CRA.

(h) Due from the Consolidated Revenue Fund (CRF)

Amounts due from the CRF are the result of timing differences between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the CRA is entitled to draw from the CRF without further authorities to discharge its liabilities.

(i) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. An allowance for doubtful accounts is recorded where recovery is considered uncertain.

(j) Tangible capital assets

All costs of \$10,000 or more incurred by the CRA to acquire or develop tangible capital assets are capitalized and amortized over the useful lives of the assets. Similar items under \$10,000 are expensed.

Tangible capital assets are amortized on a straight-line basis over the estimated useful lives of assets as follows:

Asset class	Useful life
Machinery, equipment, and furniture	10 years
In-house developed software	5-10 years
Vehicles and other means of transportation	5 years
Information technology equipment	5 years
Purchased software	3 years
Leased tangible capital assets	Term of the lease

Assets under construction/development are not amortized until completed and put into operation.

(k) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the CRA's best estimate of the contingency is disclosed in the notes to the financial statements.

(l) Measurement uncertainty

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the amounts of liabilities, assets, revenues, expenses and related disclosure reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, contingent liabilities, the useful life of tangible capital assets, services provided without charge and the allowance for doubtful accounts are the most significant items where estimates and assumptions are used. Actual results could differ significantly from the current estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the financial statements in the period in which they become known.

3. Parliamentary appropriations

The CRA receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the CRA has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

(a) Reconciliation of Parliamentary appropriations provided and used:

	2012	2011
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1— Operating expenditures, contributions and recoverable expenses on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	3,451,773	3,297,040
Vote 5 - Capital expenditures	89,033	141,243
Spending of revenues received through the conduct of operations pursuant to section 60 of the <i>Canada Revenue Agency Act</i>	245,459	245,118
Spending of proceeds from disposal of surplus Crown assets	165	196
Statutory expenditures:		
Contributions to employee benefits plans	456,860	466,012
Disbursements to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i> ¹	213,871	220,735
Children's special allowance payments ¹	223,546	222,438
Other ¹	1,699	3,932
	4,682,406	4,596,714
Less:		
Appropriations available for future years ² :		
Vote 1	(220,351)	(126,260)
Vote 5	(27,967)	(51,747)
Appropriations lapsed - Vote 1	(10,532)	(140)
Shared Services Canada deemed appropriations (note 11):		
Vote 1	(62,889)	-
Vote 5	(9,377)	-
Expenditures related to administered activities ¹	(437,670)	(443,182)
	(768,786)	(621,329)
Total Parliamentary appropriations used	3,913,620	3,975,385

¹ In accordance with the division of activities for financial reporting purposes outlined in note 2, the payments under the *Softwood Lumber Products Export Charge Act, 2006*, the *Children's Special Allowances Act* and the *Energy Costs Assistance Measures Act*, are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the CRA's Financial Statements - Administered Activities.

² Pursuant to section 60(1) of the *Canada Revenue Agency Act*, the balance of money appropriated by Parliament for the use of the CRA that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.

(b) Reconciliation of net cost of operations before government funding and transfers to current year Parliamentary appropriations used:

	2012	2011
	(in thousands of dollars)	
		Restated (note 13)
Net cost of operations before government funding and transfers	4,198,801	4,054,973
Expenses not requiring use of current year appropriations:		
Amortization of tangible capital assets (note 7)	(94,770)	(94,564)
Adjustment to prior years' accruals	6,084	6,021
Loss on disposal/write-off of tangible capital assets	(19,929)	(6,699)
Services provided without charge from other government agencies and departments (note 10)	(321,788)	(261,489)
Other	(22,329)	10,506
	(452,732)	(346,225)
Changes to non financial assets affecting appropriations:		
Tangible capital assets acquisitions	51,159	101,093
Variation in prepaid expenses	(7,533)	4,641
	43,626	105,734
Changes to future funding requirements:		
Employee severance benefits	(114,774)	(78,907)
Vacation pay and compensatory leave	(5,758)	(3,822)
	(120,532)	(82,729)
Non-tax revenue available for spending (note 9)	244,457	243,632
Total Parliamentary appropriations used	3,913,620	3,975,385

4. Accounts payable and accrued liabilities

	2012	2011
	(in thousands of dollars)	
Accounts payable and accrued liabilities – Related parties	13,699	60,803
Accounts payable and accrued liabilities – External	138,488	123,283
	152,187	184,086

The CRA has recorded at March 31, 2012 and obligation for termination benefits as part of accrued liabilities to reflect the estimated workforce adjustment costs associated with CRA's commitment to the Government's deficit reduction measures.

5. Employee future benefits

(a) Pension benefits

The CRA and all eligible employees contribute to the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec pension plans benefits and they are indexed to inflation.

Both the CRA and the employees contribute to the Public Service Pension Plan. The current year expense for the CRA's contributions represents approximately 1.8 times the contributions by employees. The contributions to the Public Service Pension Plan for the year were as follows:

	2012	2011
	(in thousands of dollars)	
CRA's contributions	328,483	327,140
Employees' contributions	182,491	164,802

The CRA's responsibility with regard to this plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(b) Health and dental benefits

The CRA contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan, which are sponsored by the Government of Canada.

The CRA's responsibility with regard to these plans is limited to its contributions (refer to note 10). Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(c) Severance benefits

The CRA provides severance benefits to its employees based on eligibility, years of service and salary upon termination. One significant assumption used in the calculation of the obligation is the discount rate to determine the net present value of the liability. The rate used for the 2012 calculation was 2.75%, down from 4% in the prior period. This explains most of the increase in the obligation as at March 31, 2012. These severance benefits are not pre-funded with assets supporting the obligations, resulting in a deficit equal to the accrued benefit obligations. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2012	2011
	(in thousands of dollars)	
Employee severance benefits, beginning of year	633,270	554,363
Cost for the year	184,675	125,687
Benefits paid during the year	(69,901)	(46,780)
Transfer to Shared Services Canada (note 11)	(15,731)	-
Employee severance benefits, end of year	732,313	633,270

As part of changes to conditions of employment for certain employee groups effective October 1, 2011, the accumulation of severance benefits ceased for these employees. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

6. Accounts receivable and advances

	2012	2011
	(in thousands of dollars)	
Account receivable - Related parties	4,148	3,056
Accounts receivable - External	618	813
Advances to employees	1,527	1,717
Salary overpayments	2,973	3,025
	9,266	8,611
Less: Allowance for doubtful accounts	(884)	(874)
Total accounts receivable and advances	8,382	7,737

7. Tangible capital assets

Tangible capital asset class	Cost				
	Opening balance	Acquisitions	Disposals and reclassifications	Transfer to Shared Services Canada (note 11)	Closing balance
	(in thousands of dollars)				
Machinery, equipment and furniture	12,336	1,381	(8,522)	9,875	12,364
Software (purchased and in-house developed and/or in development)	715,180	40,923	20,969	31,170	703,964
Vehicles and other means of transportation	2,305	337	432	-	2,210
Information technology equipment including leased assets	215,647	38,749	55,271	178,436	20,689
Total	945,468	81,390	68,150	219,481	739,227

Tangible capital asset class	Accumulated amortization				
	Opening balance	Amortization expense	Disposals and reclassifications	Transfer to Shared Services Canada (note 11)	Closing balance
	(in thousands of dollars)				
Machinery, equipment and furniture	5,012	2,067	386	1,381	5,312
Software (purchased and in-house developed and/or in development)	268,953	70,748	5,127	23,374	311,200
Vehicles and other means of transportation	1,513	301	413	-	1,401
Information technology equipment including leased assets	130,519	21,654	32,997	101,798	17,378
Total	405,997	94,770	38,923	126,553	335,291

Tangible capital asset class	2012 net book value	2011 net book value
	(in thousands of dollars)	
Machinery, equipment and furniture	7,052	7,324
Software (purchased and in-house developed and/or in development)	392,764	446,227
Vehicles and other means of transportation	809	792
Information technology equipment including leased assets	3,311	85,128
Total	403,936	539,471

The cost of software in development, which is not amortized, is \$86,835,856 as at March 31, 2012 (\$154,329,914 as at March 31, 2011).

8. Segmented information - Expenses

The following table presents the expenses by program activity and expense category as described in note 1 of these financial statements.

	Assessment						Taxpayers' Ombudsman	Benefit programs	Appeals	Taxpayer and business assistance	2012	2011
	Internal services	Reporting compliance	Accounts receivable and returns compliance	Assessment of returns and payment processing	Assessment of returns and payment processing	Assessment of returns and payment processing						
Personnel:												(in thousands of dollars)
Salaries	549,676	682,962	408,867	318,327	226,219	92,037	1,671	80,281			2,360,040	2,331,814
Other allowances and benefits (including employee benefits described in note 5)	287,983	329,400	203,158	147,341	113,846	45,970	880	30,512			1,159,090	1,077,517
	837,659	1,012,362	612,025	465,668	340,065	138,007	2,551	110,793			3,519,130	3,409,331
Accommodation	86,412	88,974	63,886	38,292	40,684	13,964	220	12,462			344,894	327,413
Professional and business services	124,699	16,509	17,880	3,783	5,194	86,601	67	1,141			255,874	204,313
Transportation and communications	53,512	19,739	14,284	51,297	3,729	1,102	66	16,924			160,653	194,861
Federal sales tax administration costs by the Province of Québec	-	-	-	141,067	-	-	-	-			141,067	142,179
Amortization of tangible capital assets (note 7)	38,308	11,813	13,817	23,199	2,908	1,214	-	3,511			94,770	94,564
Repair and maintenance	67,713	339	86	574	3	45	-	9			68,769	94,849
Equipment purchases	40,626	10,085	7,035	3,419	1,585	921	8	245			63,924	45,821
Other services and expenses	17,662	5,809	2,815	2,367	5,472	1,897	31	14,612			50,665	39,896
Materials and supplies	10,307	2,786	1,578	9,945	998	455	14	236			26,319	30,557
Loss on disposal/write-off of tangible capital assets	7,679	105	10,903	1,070	162	-	-	10			19,929	6,699
Advertising, information and printing services	7,773	154	205	238	352	61	26	27			8,836	10,775
Equipment rentals	1,671	793	361	394	222	114	5	51			3,611	4,322
Total expenses	1,294,021	1,169,468	744,875	741,313	401,374	244,381	2,988	160,021	4,758,441	4,605,580		

9. Segmented information- Non-tax revenue

The following table presents the revenues generated by program activity and revenue category as described in note 1 of these financial statements.

	Assessment of							2012	2011
	Internal services	Reporting compliance	Accounts receivable and returns compliance	returns and payment processing	Taxpayer and business assistance	Appeals	Benefit programs		
(in thousands of dollars)									
Restated (note 13)									
Non-tax revenue credited to Vote 1									
Fees for administering the <i>Employment Insurance Act</i>	45,999	-	77,721	11,908	30,415	9,946	366	176,355	171,287
Fees for administering the <i>Canada Pension Plan</i>	38,293	-	63,464	17,143	16,662	3,266	-	138,828	135,688
	84,292	-	141,185	29,051	47,077	13,212	366	315,183	306,975
Non-tax revenue available for spending									
Services fees	132,704	274	188	4,600	380	-	552	138,698	153,234
Administration fees - provinces and territories	-	24,082	407	37,396	965	2,724	37,741	103,315	87,995
Miscellaneous spendable revenue	112	551	-	33	1,745	-	3	2,444	2,403
	132,816	24,907	595	42,029	3,090	2,724	38,296	244,457	243,632
Non-tax revenue not available for spending									
Recovery of employee benefit costs relating to non-tax revenue credited to Vote 1 and revenue available for spending	7,001	5,998	23,385	10,185	8,670	2,394	3,609	61,242	57,986
Miscellaneous non-tax revenue	826	-	-	-	-	644	-	1,470	1,684
	7,827	5,998	23,385	10,185	8,670	3,038	3,609	62,712	59,670
Total non-tax revenue before revenues earned on behalf of Government	224,935	30,905	165,165	81,265	58,837	18,974	42,271	622,352	610,277
Revenues earned on behalf of Government (note 13)	(7,827)	(5,998)	(23,385)	(10,185)	(8,670)	(3,038)	(3,609)	(62,712)	(59,670)
Total non-tax revenue	217,108	24,907	141,780	71,080	50,167	15,936	38,662	559,640	550,607

10. Related party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. Transactions with Crown corporations entered into by the CRA are in the normal course of business and on normal trade terms applicable to all individuals and enterprises. Transactions with other Government of Canada departments and agencies are conducted on a cost recovery basis.

During the year, the CRA received various services without charge from other government agencies and departments. The estimated costs for significant services provided without charge that have been recorded include:

	2012	2011
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans – Treasury Board Secretariat	210,849	209,178
Information technology services - Shared Services Canada (note 11)	64,175	-
Legal services – Justice Canada	40,690	45,918
Audit services – Office of the Auditor General of Canada	2,430	2,409
Payroll services – Public Works and Government Services Canada	2,284	2,333
Workers' compensation benefits – Human Resources and Skills Development Canada	1,360	1,651
Total	321,788	261,489

11. Transfer to Shared Services Canada

Effective November 15, 2011, the CRA transferred email, data centre and network responsibility to Shared Services Canada in accordance with Order in Council (OIC) P.C. 2011-1291 to P.C. 2011-1297, including the stewardship responsibility for the related assets and liabilities.

The CRA continued to administer the transferred information technology activities on behalf of Shared Services Canada during the transition period from November 15, 2011 to March 31, 2012. In accordance with section 31.1 of the *Financial Administration Act*, the Parliamentary appropriations that the CRA has received to fund those activities for the transition period (\$72,266,484) were deemed appropriated to Shared Services Canada.

The information on the transfer to Shared Services Canada and the temporary administration by the CRA of those information technology (IT) activities is presented in the following table:

	(in thousands of dollars)
Assets and liabilities as at November 15, 2011:	
Liabilities	
Accrued salaries	1,559
Accounts payable and accrued liabilities	6,966
Vacation pay and compensatory leave	3,556
Lease obligations for tangible capital assets	30,078
Employee severance benefits	15,731
Total liabilities	57,890
Assets	
Accounts receivable and advances	11
Prepaid expenses	13,552
Tangible capital assets	92,928
Total assets	106,491
Net assets and liabilities as at November 15, 2011	(48,601)
Assets and liabilities administered during the transition period:	
Liabilities	6,533
Assets	(3,417)
Net assets and liabilities administered during the transition period	9,950
Net assets and liabilities transferred to Shared Services Canada on March 31, 2012	(38,651)
Revenues and expenses administered during the transition period	
Revenues	38,594
Expenses	102,769
Net cost of activities administered on behalf of Shared Services Canada during the transition period	(64,175)

The net of these administered revenues and expenses totalling \$64,174,890 are recorded as services provided without charge in these financial statements (note 10).

To administer the transferred information technology activities during the transition period, the CRA used \$56,900,845 of net cash on behalf of Shared Services Canada, as presented in the Statement of Cash Flows.

12. Board of Management

Pursuant to the *Canada Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the CRA and the management of its resources, services, property, personnel and contracts. The expenses relating to the board's activities for the year included in the net cost of operations were as follows:

	2012	2011
	(in thousands of dollars)	
Board of Management		
Compensation	329	303
Travel	165	156
Professional services and other expenses	106	105
	600	564
Other related costs		
Corporate Secretariat support	690	707
Total	1,290	1,271

13. Accounting changes

During the fiscal year, amendments were made based on Canadian public sector accounting standards to improve financial reporting. The significant changes to the CRA's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

(a) Agency net debt

Agency net debt (calculated as liabilities less financial assets) is now presented in the Statement of Financial Position. Accompanying this change, the CRA now presents a Statement of Change in Agency Net Debt. The equity of Canada presented in the Statement of Financial Position in previous years is now referred to as agency net financial position.

(b) Government funding and transfers

Government funding and transfers are now recognized in the Statement of Operations and Agency Net Financial Position (formerly the Statement of Operations) below the net cost of operations before government funding and transfers (formerly the net cost of operations), which resulted in the introduction of the net cost of operations after government funding and transfers. In previous years, the CRA recognized these transactions in the Statement of Equity of Canada, which is no longer presented.

(c) Non-tax revenue not available for spending

Non-tax revenue is now presented net of non-tax revenue not available for spending in the Statement of Operations and Agency Net Financial Position (refer to note 2e). The effect of this change was to decrease the total non-tax revenue which increased the net cost of operations before government funding and transfers as well as the net cash provided by the Government of Canada by \$62,711,706 for 2012.

The following table presents the impact of this accounting change on the 2011 financial statements:

	2011 As previously stated	Effect of change	2011 Restated
	(in thousands of dollars)		
Statement of Operations and Agency Net Financial Position:			
Net cost of operations before government funding and transfers	3,995,303	59,670	4,054,973
Total non-tax revenue	610,277	(59,670)	550,607
Net cash provided by the Government of Canada	3,623,703	59,670	3,683,373

14. Contingent liabilities

The CRA is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business of agency activities as defined in note 2. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2012, contingent liabilities for claims and pending and threatened litigation have been estimated by management at \$36,772,645 (\$52,131,223 as at March 31, 2011).

15. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Financial Statements Discussion and Analysis – Agency Activities

Introduction

This section of the financial statements provides unaudited complementary and supplementary information on Agency Activities, on an accrual basis, in respect of matters reported in the audited financial statements. Responsibility for the preparation of this financial statements discussion and analysis rests with the CRA's management.

Capacity to deliver services

The CRA's workforce of over 40,000 employees is fundamental to the achievement of its mandate. In the course of 2011-2012, this workforce was comprised on average of 83% permanent employees, 16% term employees and 1% students.

The CRA's employees are located throughout Canada, in the following operational regions: Ontario (32%), Headquarters (21%), Prairies (15%); Québec (12%); Pacific (12%) and Atlantic (8%). They provide services to taxpayers in over 40 tax services offices and tax centers, as well as program services and internal services supporting those programs.

The CRA's information technology (IT) capacity is also critical to its ability to deliver services to Canadians. This is a sizeable task which requires the involvement of two data centres which process up to 4 million transactions per hour, 7 mainframe computers, about 1,700 servers, and the maintenance of over 495 applications across a distributed computing environment covering more than 400 locations. As explained below, effective November 15, 2011, IT infrastructure services related to email, data centres and network services are provided through Shared Services Canada in partnership with the CRA.

Financial highlights

Four developments have significantly influenced the 2011-2012 results in the financial statements.

1. Shared Services Canada

In fiscal year 2011-2012, the Government of Canada announced the creation of Shared Services Canada, a new organization with a mandate to establish a government-wide approach to managing the delivery of information technology infrastructure services. In light of Shared Services Canada's responsibilities, the CRA transferred to Shared Services Canada the control and supervision of operational domains related to email, data centres and network services.

By Order-in-Council, effective November 15, 2011, \$72.3 million in CRA resources were deemed appropriated to Shared Services Canada for 2011-2012. The deemed appropriations included \$11.7 million in planned carry forwards required by Shared Services Canada to meet existing contractual agreements in 2012-2013.

The cost of IT activities that were transferred to Shared Services Canada continues to be fully reflected in the financial statements as professional services received without charge (refer to note 10 of the Financial Statements - Agency Activities).

The CRA worked closely with the Treasury Board Secretariat, the Office of the Receiver General and Shared Services Canada to ensure that accounting and reporting requirements were met for the deemed appropriations and associated expenditures.

2. Collective bargaining

As part of the 2010 Federal Budget, the Government announced a freeze on the operating budgets of departments and agencies up to and including 2012-2013. As a result, no incremental central funding is being provided to organizations for the cost of wage increases that take effect between April 1, 2010 and March 31, 2013.

In fiscal year 2011-2012, the funding shortfall associated with these wage increases amounted to approximately \$48.0 million. The CRA managed this operating pressure with internal funding from general administrative and program efficiencies identified through a targeted program spending review.

3. CRA's financial management

The CRA employs a multi-year resource management strategy by utilizing its two-year spending authority to better position itself in future years to address known pressures and / or respond quickly to unforeseen and extraordinary operating pressures. In 2011-2012 the total appropriations available for future years was \$248.3 million. While this was higher than prior years, it was due in large part to plans to re-profile funds to 2012-2013 in order to mitigate the impacts of the operating budget freeze.

As part of its resource management strategy, the CRA continuously reviews and revises plans and priorities to ensure the effective use of government resources and the achievement of our core business outcomes. In 2011-12, the majority of key performance targets were met or exceeded.

4. Provincial sales tax administration reform

On July 1, 2010, the CRA implemented the harmonized sales tax (HST) in the provinces of Ontario and British Columbia. The CRA received funding in 2011-2012 of \$137.8 million (including employee benefit plan contributions and accommodation charges) for the continued implementation and administration of the HST in both provinces. This funding was used to transition affected provincial employees to the CRA, identify and address risk of HST non-compliance, and administer province-specific HST flexibilities in Ontario and British Columbia. Since that time, the province of British Columbia has confirmed it will return to the provincial sales tax model effective April 1, 2013. In addition, on April 18, 2012, the province of Prince Edward Island announced that it will transition to the HST effective April 1, 2013. Adjustments to the CRA funding associated with these announcements will be reflected in future years, as necessary.

Discussion and analysis

Analysis of net cost of operations

The CRA's 2011-2012 net cost of operations amounted to \$4,198.8 million, increasing by \$143.8 million from the \$4,055.0 million net cost of operations in 2010-2011.

Details of the net cost of operations are illustrated below (see note 8 of the Financial Statements - Agency Activities for a further breakdown of expenses by category):

Figure 1: Details on the net cost of operations

	2012	2011	Difference
	(in thousands of dollars)		
Personnel	3,519,130	3,409,331	109,799
Accommodation	344,894	327,413	17,481
IT equipment and services	323,597	270,567	53,031
Transportation and communications	160,653	194,861	(34,208)
Professional and business services excluding IT	155,493	160,252	(4,759)
Federal sales tax administration costs – Province of Québec	141,067	142,179	(1,112)
Other	113,607	100,977	12,629
Total expenses	4,758,441	4,605,580	152,861
Less: Non-tax revenue	559,640	550,607	9,033
Net cost of operations	4,198,801	4,054,973	143,828

The CRA's expenses are comprised of 74% personnel expenses (salaries, other allowances and benefits) and 26% non-personnel expenses.

Personnel expenses are the primary drivers for the CRA. A number of significant factors contributed to the increase of \$109.8 million for these expenses in 2011-2012: annual economic salary increases pursuant to collective agreement provisions; the increase in the actuarial rate used to calculate severance benefits; termination benefits related to workforce adjustments resulting from the CRA's ongoing transformation. These increases were partially offset by salaries and benefits transferred to Shared Services Canada.

A significant portion of non-personnel expenses relates to accommodation and IT equipment and services. The net increase of \$43.1 million in non-personnel expenses in 2011-2012 is mainly attributable to greater expenses relating to accommodations, as well as IT related expenses, and reflects an offset related to a decrease in transportation and communications costs.

Financial position

The change in the Agency net financial position compared to the previous year is as follows:

Figure 2: Statement of Financial Position

	2012	2011	Difference
	(in thousands of dollars)		
Liabilities	1,145,734	1,068,003	77,731
Financial assets	184,310	231,206	(46,896)
Agency net debt	961,424	836,797	124,627
Non-financial assets	416,889	561,411	(144,522)
Agency net financial position	544,535	275,386	269,149

The increase in the Agency net financial position is attributable to both an increase in the liabilities due to employee severance benefits as explained below and to a decrease in financial and non-financial assets due in part to the transfer of assets to Shared Services Canada.

Liabilities

Liabilities increased by \$77.7 million in 2011-2012. A significant part of this increase is attributable to changes in the economic assumptions used to estimate the actuarial present value as at March 31 of the expected future employee severance benefit payments.

Employee severance benefits is the CRA's most significant liability, as illustrated in the table below.

figure 10 Liabilities by category



In the course of 2011-2012, conditions of employment for certain employee groups within the CRA were modified so that their employee severance benefits would cease to accrue. The employees concerned were given the option to be paid their accrued severance benefits as at the effective date of the new terms of employment. These modifications that were also introduced for other employee groups in the following fiscal year are expected to reduce the CRA's employee severance benefits liability in the coming and future years.

Non-financial assets

Non-financial assets are comprised of 97% tangible capital assets. The CRA managed a capital budget of \$89.0 million for the year 2011-2012, of which \$9.4 million was deemed appropriated to Shared Services Canada and \$28.0 million remains available for use in future years in accordance with the CRA's multi-year resource management strategy.

The vast majority of tangible capital assets owned by the CRA relates to IT. A substantial portion of CRA's costs related to IT equipment was transferred to Shared Services Canada during the year as part of the Government's effort to streamline the delivery of email, data centre, network and telephony services across the Public Service.

Software remains the most significant type of tangible capital asset required by the CRA to deliver its mandate. As a large organisation responsible for delivering an extensive range of tax and benefits programs on behalf of the federal and of provincial governments, the CRA has specialized software needs that are primarily fulfilled internally through the development of in-house tailored applications by the CRA employees. During the year, the CRA invested \$39.8 million in capital expenditures to develop customized software that will allow it to continue to administer and enforce tax legislation efficiently.

Risk

Risk management plays a key role in supporting sound financial management as it allows the CRA to protect its assets and reinforces a strong sense of prioritization in investment decisions. At the CRA, the Enterprise Risk Management (ERM) Branch supports the effective management of resources in multiple ways. Firstly, as a member of the committee overseeing investment projects above \$1 million, the Chief Risk Officer and Assistant Commissioner of the ERM Branch brings a risk perspective to the committee's review activities. Secondly, all projects brought to the committee require a formal attestation from the ERM Branch that the CRA structured risk management process was followed and that sound risk information forms part of the submission. The attestation process takes place at various project development stages. Lastly, enterprise risk information is used to inform the development of the CRA Strategic Investment Plan (SIP); a long-term plan for significant future investments. More specifically, project alignment with the priorities outlined in the Corporate Risk Profile is one of the considerations used to inform the priority ranking of initiatives.

For further details on ERM at the CRA, please see the Enabling core business operations section of the annual report.

Outlook

The CRA continues to modernize its operations and reduce red tape to enhance services to Canadians while reducing its overall costs. It is increasingly providing services electronically to make it easier for Canadians and businesses to interact with the CRA at the lowest possible cost. By simplifying the way it collects taxes and distributes benefit payments, the CRA will ensure Canadians and small and medium-sized enterprises receive the benefits and credits to which they are entitled as efficiently and quickly as possible.

**Canada Revenue Agency
Audited Financial Statements –
Administered Activities**



Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying statement of administered assets and liabilities of the Canada Revenue Agency as at 31 March 2012, and the statement of administered revenues and pension contributions, statement of administered expenses and recoveries and statement of administered cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (together "the financial information"). The financial information has been prepared by management using the basis of accounting described in Note 2.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial information based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial information.

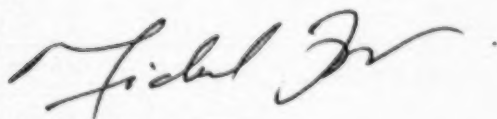
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial information presents fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at 31 March 2012, and the results of its administered operations and its administered cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 to the financial information, which describes the purpose and basis of accounting for reporting activities administered by the Canada Revenue Agency on behalf of others. This financial information may not be suitable for another purpose. Management prepares a separate set of financial statements to report the operational revenues and expenses of the Canada Revenue Agency.

A handwritten signature in black ink, appearing to read "Michael Ferguson".

Michael Ferguson, FCA
Auditor General of Canada

28 August 2012
Ottawa, Canada

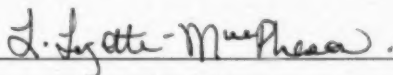
Canada Revenue Agency
Statement of Administered Assets and Liabilities

as at March 31
(in thousands of dollars)

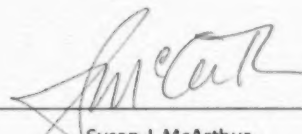
	2012	2011
Administered assets		
Cash on hand	5,228,267	6,418,372
Amounts receivable from taxpayers (note 3)	84,270,615	76,959,150
Amounts receivable under the tobacco civil settlements (note 4)	526,532	588,227
Total assets	90,025,414	83,965,749
Administered liabilities		
Amounts payable to taxpayers (note 5)	50,956,269	48,647,123
Amounts payable to provinces (note 6)	657,763	650,488
Deposit accounts (note 7)	128,552	107,642
	51,742,584	49,405,253
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (note 8)	38,282,830	34,560,496
Total liabilities	90,025,414	83,965,749
Contingent liabilities (note 9)		

The accompanying notes form an integral part of these financial statements.

Approved by:



Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer



Susan J. McArthur
Chair, Board of Management

Canada Revenue Agency Statement of Administered Revenues and Pension Contributions

for the year ended March 31
(in thousands of dollars)

	2012	2011
Federal administered revenues		
Income tax revenues		
Individual and trust	119,473,450	113,570,868
Corporate	31,701,857	29,969,047
Non-resident tax withholdings	5,300,928	5,137,774
	<u>156,476,235</u>	<u>148,677,689</u>
Other taxes, duties and charges		
Goods and services tax (note 10)	10,372,547	11,583,050
Energy taxes	5,268,716	5,298,323
Other excise taxes and duties	3,342,813	3,301,658
Miscellaneous charges (note 11)	865,274	833,169
	<u>19,849,350</u>	<u>21,016,200</u>
Total tax revenues	176,325,585	169,693,889
Employment insurance premiums	19,030,411	17,862,454
Interest, penalties, and other revenues (note 12)	3,663,901	4,028,248
Revenues administered on behalf of the Government of Canada	199,019,897	191,584,591
Interest expense	(696,654)	(560,746)
Net revenues administered on behalf of the Government of Canada	198,323,243	191,023,845
Provincial and territorial governments and First Nations administered revenues		
Income tax revenues		
Individual and trust	52,980,312	48,021,244
Corporate	13,323,379	12,810,324
	<u>66,303,691</u>	<u>60,831,568</u>
Provincial portion of harmonized sales tax (note 13)	28,029,190	21,693,984
Other revenues (note 14)	276,567	559,599
Revenues administered on behalf of provincial and territorial governments and First Nations	94,609,448	83,085,151
Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan (note 15)	39,026,598	37,177,356
Total administered revenues and pension contributions	331,959,289	311,286,352
Other revenues received by the CRA and paid or payable directly to the provinces (note 14)	(248,187)	(526,440)
Total net administered revenues and pension contributions	331,711,102	310,759,912

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency Statement of Administered Expenses and Recoveries

for the year ended March 31
(in thousands of dollars)

	2012	2011
Federal administered expenses		
Child tax benefits	10,048,991	10,013,376
Universal child care benefits	2,677,419	2,642,485
Children's special allowances	223,546	222,438
Transfers to provinces for softwood lumber products export charge	213,871	220,735
Provision for doubtful accounts (note 3)	3,711,275	3,344,307
Federal administered recoveries		
Old age security benefits	(1,159,270)	(1,061,615)
Employment insurance benefits	(235,619)	(224,929)
Net expenses and recoveries administered for the Government of Canada	15,480,213	15,156,797
Provincial and territorial administered expenses		
Ontario sales tax transition benefit	1,372,014	2,619,861
Sales tax credits	1,587,816	1,146,406
Family benefit programs	1,047,658	1,063,553
Ontario energy and property tax credit	794,966	-
Ontario senior homeowners' property tax grant	219,682	199,828
British Columbia low-income climate action tax credit	184,590	169,959
Net expenses administered for provinces and territories	5,206,726	5,199,607
Provision for doubtful accounts administered for the Canada Pension Plan (note 3)	102,339	108,073
Total net administered expenses and recoveries	20,789,278	20,464,477

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency Statement of Administered Cash Flows

for the year ended March 31
(in thousands of dollars)

	2012	2011
Total net administered revenues and pension contributions	331,711,102	310,759,912
Total net administered expenses and recoveries	(20,789,278)	(20,464,477)
Changes in administered assets and liabilities:		
Cash on hand	1,190,105	(1,507,784)
Amounts receivable from taxpayers net of allowance for doubtful accounts	(7,311,465)	(9,521,582)
Amounts receivable under the tobacco civil settlements	61,695	59,584
Amounts payable to taxpayers	2,309,146	392,510
Amounts payable to provinces	7,275	(34,751)
Deposit accounts	20,910	8,198
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	307,199,490	279,691,610
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	419,114,545	385,666,000
Cash refunds/payments from the Consolidated Revenue Fund	(111,915,055)	(105,974,390)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	307,199,490	279,691,610

The accompanying notes form an integral part of these financial statements.

Canada Revenue Agency

Notes to the Financial Statements – Administered Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice and services by:

- (a) supporting the administration and enforcement of the program legislation;
- (b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA collects revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and collects amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In the province of Quebec, Revenu Québec (RQ) acts as an agent of the CRA in administering and enforcing the GST. The CRA monitors cash transfers made by RQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to RQ so it can issue refunds.

The CRA's mandate for administering customs legislation is limited to the collection functions noted under Part V.1 of the *Customs Act*. The CRA also provides collection services to Human Resources and Skills Development Canada for certain accounts receivable under various acts.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The purpose of these administered activities statements is to give information about the tax-related revenues, expenses, assets, and liabilities that the CRA administers on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The CRA administers individual income tax for all provinces except Quebec, and corporate income tax for all provinces except Quebec and Alberta. The Financial Statements - Agency Activities include the operational revenues and expenses that the CRA manages and uses to run the organization.

Section 88(2)(a) of the *Canada Revenue Agency Act* requires the CRA to prepare financial statements in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. The stated accounting policies for activities administered by the CRA do not result in any significant differences from Canadian public sector accounting standards.

A new accounting standard issued by the Public Sector Accounting Standard Board - Section PS 3510 Tax Revenues - became effective for CRA on April 1, 2012. The main impact of implementing this section relates to the classification of transfers through the tax system as separate expenses rather than netted against tax revenues. The CRA will adopt this new standard for the fiscal year ending March 31, 2013.

A summary of the significant accounting policies follows:

(a) Revenue and pension contributions recognition

Revenues and pension contributions are recognized in the year in which the event that generates the revenue or the pension contribution occurs. The following policies are applied for specific streams:

(i) Income taxes, Canada Pension Plan contributions, and employment insurance premiums:

Income tax revenues are recognized when the taxpayer has earned income that is subject to tax. Income is calculated net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current-year activity. Canada Pension Plan (CPP) contributions are recognized when the employee or the self-employed person has earned pensionable income. Employment insurance (EI) premiums are recognized as revenue when the employee has earned insurable earnings. For non-resident taxpayers (individuals and corporations), revenues are recognized when the taxpayers receive income from which tax is withheld on active and inactive income they earned in Canada.

These revenues and pension contributions are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31.

Revenues and pension contributions for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. An additional estimate of future reassessments is only recorded when it can be reliably determined. This is limited to assessments under objection or appealed to various courts.

(ii) Other taxes, duties and charges:

Goods and services tax (GST) and harmonized sales tax (HST) revenues on domestic goods and services are recognized at the time the goods are sold or the services provided. Revenues are reported net of input tax credits, GST/HST rebates, and the GST quarterly tax credits in the case of GST revenues. Input tax credits are the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. Rebates are granted in various circumstances, for example to relieve the tax burden in areas where the cost of housing is very high, or to allow for the recovery of taxes on purchases where the purchaser cannot claim an input tax credit. The GST quarterly tax credit for low-income individuals and families is recorded in the period it relates to. It is intended to offset the cost of the tax for low-income individuals and families.

For excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received, that relate to the fiscal year ended March 31. Miscellaneous charges are recognized as revenue when they are earned.

(iii) Interest, penalties, and other revenues:

Interest, penalties, and other revenues are recorded when they are earned, except for the Nova Scotia worker's compensation which is recorded as revenue when payments are received from employers. All interest and penalty revenues are reported as revenues administered for the federal government as stated in the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

(iv) **Assessment – definition:**

An assessment (or reassessment) of tax includes all decisions and other steps made or taken by the Minister of National Revenue and officials of the CRA under the federal, provincial, and territorial acts or sections of the acts the CRA administers to calculate tax payable by taxpayers. When verifying a taxpayer's return, the CRA uses the various tax acts it administers and other criteria it developed that are designed to substantially meet the provisions of these acts.

Reassessments include changes to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or changes the CRA initiated as a result of applying procedures to verify reporting compliance, such as taxpayer audits.

(v) **Completeness of tax revenues:**

The Canadian tax system is based on self-assessment, so taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The CRA has implemented systems and controls to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include audits of taxpayer records when the CRA decides they are necessary, but these procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The CRA is unable to estimate the amount of unreported tax.

(b) Expenses

(i) **Interest expense:**

The CRA has to pay interest when it pays refunds late. These refunds arise largely from the resolution of long-standing corporate tax files in favour of the taxpayer. Interest is accrued from the date that the tax instalment was initially paid to the date that the case is resolved. The CRA records the interest expense in the fiscal year it relates to.

(ii) **Administered expenses:**

Expenses relating to child tax benefits, universal child care benefits, children's special allowances, and provincial and territorial administered expenses are recorded in the year they relate to, based on when the recipients were entitled to receive the benefit or the allowance. Transfers to provinces for the softwood lumber products export charge are recorded as an expense in the same year that the related softwood lumber products export charge revenues are recognized.

(iii) **Administered recoveries:**

Recoveries of old age security and EI benefits are recognized when assessed. Amounts not yet assessed are estimated. The CRA reports only recoveries assessed through the individual income tax system. Recoveries determined by other federal government departments are not reported in these financial statements.

(c) Cash on hand

Cash on hand refers to amounts received in the CRA's offices or by its agents up to March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada.

(d) Amounts receivable from taxpayers

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the receivable balance results from recording accrued receivables that relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is management's best estimate of the collectability of amounts that have been assessed, including the related interest and penalties, but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age of the accounts. A specific allowance is calculated based on an annual review of all accounts over \$10 million.

The allowance for doubtful accounts is adjusted every year through a provision for doubtful accounts and is reduced by amounts written off as uncollectible during the year. The annual provision is reported in the Statement of Administered

Expenses and Recoveries. Except for the portion related to CPP contributions, which is charged to the CPP account, the provision is charged to expenses administered for the federal government because it assumes all collection risks, as stated in the terms of the tax collection agreements with the provinces, territories, and First Nations.

(f) Amounts payable to taxpayers

Amounts payable to taxpayers include refunds and related interest assessed or estimated by the CRA that were not paid up to March 31. A significant portion of the amount payable results from recording accrued payables that relate to the current year but are not due for payment until the next fiscal year. They include refunds resulting from assessments completed after March 31, and estimates of refunds for individual and trust income tax and corporate income tax not yet assessed.

(g) Contingent liabilities

Contingent liabilities are potential liabilities resulting from, for example, previously assessed taxes recorded as revenue that might become actual liabilities if one or more future events occurs or does not occur. If the future event is likely to occur or does not occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and the revenues are reduced. If the likelihood cannot be determined or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(h) Measurement uncertainty

To prepare these statements, management has to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses, and recoveries reported. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. In particular, estimates are made to determine individual and trust income tax revenues, corporate income tax revenues, non-resident tax withholdings, GST/HST revenues, energy taxes, other excise tax and duty revenues, EI premiums, CPP contributions, and the related amounts receivable and payable. Actual results can differ from the estimates and any differences are recorded in the year the actual amounts are determined. The effect of changes to such estimates and assumptions in future periods can be significant. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

3. Amounts receivable from taxpayers

The following table shows details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. These amounts include related interest and penalties receivable. Amounts receivable from individuals and employers include Canada Pension Plan contributions and employment insurance premiums as applicable.

	2012		2011	
	Gross	Allowance for doubtful accounts	Net	Net
	(in thousands of dollars)			
Income Taxes				
Individuals	45,897,369	(6,096,866)	39,800,503	37,748,044
Employers	17,438,096	(1,039,038)	16,399,058	15,660,091
Corporations	12,520,734	(1,785,710)	10,735,024	9,869,948
Non-residents	1,173,720	(113,939)	1,059,781	860,549
GST/HST	17,310,333	(2,841,349)	14,468,984	11,614,568
Excise taxes and duties and miscellaneous charges	1,852,695	(45,430)	1,807,265	1,205,950
Total	96,192,947	(11,922,332)	84,270,615	76,959,150

Changes in the allowance for doubtful accounts include the following:

	Allowance for doubtful accounts March 31, 2011	Provision for doubtful accounts	Write-offs	Allowance for doubtful accounts March 31, 2012
	(in thousands of dollars)			
Income Taxes				
Individuals	(5,459,080)	(1,836,110)	1,198,324	(6,096,866)
Employers	(999,100)	(381,367)	341,429	(1,039,038)
Corporations	(1,752,663)	(565,283)	532,236	(1,785,710)
Non-residents	(127,478)	(24,245)	37,784	(113,939)
GST/HST	(2,566,677)	(980,985)	706,313	(2,841,349)
Excise taxes and duties and miscellaneous charges	(45,262)	(25,624)	25,456	(45,430)
Total	(10,950,260)	(3,813,614)	2,841,542	(11,922,332)

The provision of \$3,813 million (\$3,452 million in 2011) reported above includes an amount of \$3,711 million (\$3,344 million in 2011) recorded as an expense administered on behalf of the federal government (see Note 2(e)) and \$102 million (\$108 million in 2011) charged against expenses administered on behalf of the Canada Pension Plan.

4. Amounts receivable under the tobacco civil settlements

On July 31, 2008, the federal and provincial governments entered into civil settlement agreements with two tobacco companies to resolve potential civil claims. Under the terms of the agreements, payments totalling \$850 million are to be made to Canada, for Canada and the provinces. The federal government's share is \$325 million and the provincial governments' share is \$525 million. The settlement agreements state that the amounts will be fully paid by 2023. Up to \$800 million is expected to be received in the first 10 years of the agreements and about \$50 million in the following five years. These amounts are recorded at the nominal value.

The following table gives details of the amounts receivable related to the tobacco civil settlement agreements:

	2012			2011		
	Government of Canada share	Provincial share	Total	Government of Canada share	Provincial share	Total
	(in thousands of dollars)					
Balance, beginning of year	279,000	309,227	588,227	314,900	332,911	647,811
Amounts received during the year	(15,000)	(46,695)	(61,695)	(35,900)	(23,684)	(59,584)
Balance, end of year	264,000	262,532	526,532	279,000	309,227	588,227

5. Amounts payable to taxpayers

The following table gives details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2012	2011
	(in thousands of dollars)	
Individuals	30,261,028	29,591,211
Corporations	9,860,976	9,795,864
GST/HST	10,535,003	9,133,614
Employers and non-residents	248,396	66,933
Excise taxes and duties and miscellaneous charges	50,866	59,501
Total	50,956,269	48,647,123

6. Amounts payable to provinces

The following table gives details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2012	2011
	(in thousands of dollars)	
Provincial share of the tobacco civil settlements (note 4)	262,532	309,227
Softwood lumber products export charge net of costs incurred by the federal government	59,676	62,941
Amounts payable to Quebec:		
Individual income tax withholdings	218,860	202,631
GST refunds issued by Quebec	113,483	74,495
Nova Scotia worker's compensation	1,503	575
Ontario corporate tax and opportunities fund	1,709	619
Total	657,763	650,488

The CRA is acting as an agent for the provinces under the tobacco civil settlements. The CRA's liability to the provinces for their expected share of the settlement amounts is limited to the amounts that will ultimately be collected from the tobacco companies.

Amounts payable to provinces, territories, and other organizations, which are settled by other departments such as the Department of Finance for provincial, territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside the CRA's responsibility.

7. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST for non-resident registrants and certain licensees for excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table shows activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2012	2011
	(in thousands of dollars)	
Balance, beginning of year	107,892	99,833
Receipts and other credits	52,173	33,626
Payments and other charges	(31,373)	(25,567)
Balance, end of year	128,692	107,892
Securities held in trust	(140)	(250)
Net deposit accounts	128,552	107,642

8. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the fund) and other administered liabilities payable by the CRA out of the fund.

The net cash deposited in the Consolidated Revenue Fund of the Government of Canada includes amounts the CRA receives on behalf of the federal government, provinces, territories, and other organizations and deposits in the fund, less refunds and payments issued from the fund during the year.

The following table shows the change in the net amount due to the Consolidated Revenue Fund during the fiscal year:

	2012	2011
	(in thousands of dollars)	
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year	34,560,496	23,956,671
Total net administered revenues and pension contributions	331,711,102	310,759,912
Total net administered expenses and recoveries	(20,789,278)	(20,464,477)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(307,199,490)	(279,691,610)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	38,282,830	34,560,496

9. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada, or the Supreme Court of Canada. As of March 31, 2012, \$19,944 million was under objection at the CRA level (\$17,117 million for 2011) and \$4,840 million was being appealed to the courts (\$3,299 million for 2011). The CRA has recorded, in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers, as applicable, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

10. Goods and services tax revenues

The GST reported on the Statement of Administered Revenues and Pension Contributions includes the federal portion of HST. It is net of input tax credits (ITCs), rebates, and the GST quarterly tax credit for low-income individuals and families that

the CRA administers. It does not include GST revenues on imported goods, which are administered and reported by the Canada Border Services Agency. The CRA has sole responsibility for administering all ITCs, including those claimed on imported goods. ITCs relating to GST on imports are not accounted for separately from ITCs relating to GST on domestic transactions.

The following table shows details of the GST revenues that the CRA administers for the Government of Canada as reported in the Statement of Administered Revenues and Pension Contributions:

	2012	2011
	(in thousands of dollars)	
GST revenues net of ITCs	20,904,252	21,299,433
GST rebates	(6,637,641)	(5,925,091)
GST quarterly tax credits for low-income individuals and families	(3,894,064)	(3,791,292)
GST net revenues	10,372,547	11,583,050

The amounts of GST net revenues reported above are net of receipts and disbursements resulting from processing GST returns. During the period, the CRA has processed \$86,209 million in receipts (\$69,567 million in 2011) and \$78,995 million in disbursements and transfers (\$62,051 million in 2011).

11. Miscellaneous charges

The following table details the miscellaneous charges that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2012	2011
	(in thousands of dollars)	
Softwood lumber products export charge	234,271	233,126
Air travellers security charge	631,003	600,078
Charge on refund of duty deposits for softwood lumber	-	(35)
Total	865,274	833,169

12. Interest, penalties, and other revenues

Various tax legislation gives the CRA the authority, under certain conditions, to collect interest and penalties related to taxes due and regulations that taxpayers have not complied with. The CRA has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as processing delays caused by the CRA, financial hardship experienced by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments.

The following table gives details on interest, penalties, and other revenues that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2012	2011
	(in thousands of dollars)	
Gross interest and penalties	3,787,379	3,874,078
Interest and penalties waived under authority of the <i>Income Tax Act</i>	(135,986)	(121,307)
Net interest and penalties	3,651,393	3,752,771
Fines imposed under various acts	10,981	237,948
Other revenues	1,527	37,529
Interest, penalties, and other revenues	3,663,901	4,028,248

13. Provincial portion of harmonized sales tax

Under agreements reached with the Government of Canada, the CRA started to administer the harmonized sales tax in Ontario and British Columbia on July 1, 2010. The CRA recorded in these financial statements the provincial portion of HST it administered for these provinces, and for Nova Scotia, New Brunswick, and Newfoundland and Labrador, in accordance with the accounting policies described in Note 2. On August 26, 2011, British Columbia announced that it will return to the provincial sales tax. This change will be effective April 1, 2013. Until then, the CRA will continue to administer HST for British Columbia. On April 18, 2012, the province of Prince Edward Island (PEI) announced that it has entered into an agreement with the government of Canada in order to bring PEI into the HST revenue allocation framework effective April 1, 2013.

The provincial portion of HST reported on the Statement of Administered Revenues and Pension Contributions is net of input tax credits (ITCs) and rebates. It includes the recaptured ITC, which applies to certain types of supplies purchased by large businesses. It does not include ITCs that importers claim for the GST they paid on commercial imports and it does not include the provincial portion of HST collected on imported goods, which is administered and reported by the Canada Border Services Agency.

The following table details the provincial portion of HST revenues as reported in the Statement of Administered Revenues and Pension Contributions:

	2012	2011
	(in thousands of dollars)	
Provincial portion of HST revenues net of ITC	31,575,327	23,744,108
Recaptured ITC	700,099	443,445
Transitional tax	77,747	45,334
HST provincial rebates	(4,323,983)	(2,538,903)
Provincial portion of HST net revenues	28,029,190	21,693,984

14. Other revenues

The following table gives details of other revenues the CRA administers for provincial and territorial governments and First Nations as reported in the Statement of Administered Revenues and Pension Contributions. Revenues that the CRA receives then pays directly to the provinces, such as the tobacco civil settlement and the Nova Scotia workers' compensation amounts, are flow-through collection activities rather than payments made under legislative authority. These amounts are included as administered revenue and then deducted from the Statement of Administered Revenues and Pension Contributions.

	2012	2011
	(in thousands of dollars)	
Tobacco civil settlements	-	284,000
Nova Scotia workers' compensation	246,684	242,300
Ontario opportunities fund	1,503	140
Total revenues received by the CRA and paid or payable directly to provinces	248,187	526,440
First Nations sales tax and GST	18,515	16,591
First Nations income tax	9,865	16,568
Total	276,567	559,599

15. Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan

The following table shows details of the transactions the CRA administers on behalf of the Canada Pension Plan as reported in the Statement of Administered Revenues and Pension Contributions:

	2012	2011
	(in thousands of dollars)	
Pension contributions	38,862,030	37,033,112
Interest and penalties	164,568	144,244
Total	39,026,598	37,177,356

16. Related-party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The CRA deposits all monies received to the Consolidated Revenue Fund (CRF), and the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for amounts such as provincial, territorial, and First Nations taxes, for which the CRA administers the revenue collection process. Old age security benefit recoveries, Canada Pension Plan contributions (net of overpayments refunded by the CRA), and employment insurance premiums are credited to Human Resources and Skills Development Canada, which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Operating Account. The CRA also administers a refund set-off program that can use individuals' tax refunds to pay debts they owe under federal, provincial, or territorial programs.

The CRA provides collection services to the Canada Border Services Agency under Part V.1 of the *Customs Act*. It also provides collection services to Human Resources and Skills Development Canada for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan*, and the *Old Age Security Act*. The related payments are made directly to either the Canada Border Services Agency or Human Resources and Skills Development Canada, who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the CRA's accounts.

Employment insurance premiums administered on behalf of the federal government include the employer's share that the federal government pays. The GST declared to the CRA includes the GST the federal government pays to its suppliers on domestic purchases. The GST that other federal government departments collects is deposited to the CRF, declared to the CRA, and included in the GST domestic revenues.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation used in the current year.

Financial Statements Discussion and Analysis – Administered Activities

Introduction

The Financial Statements - Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency on behalf of the Government of Canada, provinces, territories, First Nations, and other government organizations. Tax revenues are recognized on an accrual basis and are net of the applicable deductions and credits allowed under various Acts.

The Financial Statement Discussion and Analysis provides unaudited complementary and supplementary information on Administered Activities in respect of matters reported in the audited Financial Statements. Responsibility for the preparation of the Financial Statement Discussion and Analysis rests with CRA management.

Tax Revenues

The Canada Revenue Agency collects the majority of federal tax revenues. Other agencies and departments, such as the Canada Border Services Agency, account for the balance of total Federal Revenues reported in the Public Accounts of Canada. For further information on revenue collected by the Government of Canada as a whole, please refer to the Annual Financial Report of the Government of Canada, available at www.fin.gc.ca/purl/afr-eng.asp.

Revenues administered on behalf of the Government of Canada

Federal Administered Revenues (\$000)	2012	2011	+/-	%
Income Tax Revenues				
Individual and trust	119,473,450	113,570,868	5,902,582	5.2%
Corporate	31,701,857	29,969,047	1,732,810	5.8%
Non-resident tax withholdings	5,300,928	5,137,774	163,154	3.2%
	156,476,235	148,677,689	7,798,546	5.2%
Other Taxes, Duties, and Charges				
Goods and Services Tax	10,372,547	11,583,050	(1,210,503)	(10.5%)
Energy Taxes	5,268,716	5,298,323	(29,607)	(0.6%)
Other Excise taxes and duties	3,342,813	3,301,658	41,155	1.2%
Miscellaneous charges	865,274	833,169	32,105	3.9%
	19,849,350	21,016,200	(1,166,850)	(5.6%)
Employment Insurance Premiums	19,030,411	17,862,454	1,167,957	6.5%
Interest, penalties, and other revenues	3,663,901	4,028,248	(364,347)	(9.0%)
Interest expense	(696,654)	(560,746)	(135,908)	24.2%
	21,997,658	21,329,956	667,702	3.1%
Net Revenues Administered on behalf of the Government of Canada	198,323,243	191,023,845	7,299,398	3.8%

Net revenues were \$198.3 billion in 2012, some \$7.3 billion higher than in 2011. All administered revenues were higher except Goods and Services Tax, Energy Taxes, and Interest, penalties, and other revenues.

Individual and Trust Income Tax

Individual and trust income tax revenues increased by \$5.9 billion, or 5.2%. The increase reflects continued economic growth from higher employment and wages, and is in line with the increase in individual taxable income.

Corporate Income Tax

Corporate income tax revenues increased by \$1.7 billion or 5.8%. The growth stems from a strong recovery of corporate profits in small to medium enterprises that was partially offset by cuts in the tax rate.

Non-Resident Tax Withholdings

Non-resident tax withholdings revenues increased by \$163.1 million or 3.2%. Revenue recovered to historical levels as large reassessments suppressed revenue in FY2011.

Goods and Services Tax

GST revenues decreased by \$1.2 billion or 10.5%. The decline stems from a surge in input tax credits due to an increase in capital investments and inventory levels. This was partially offset by higher revenues associated with growth in retail sales and sales of real property.

Energy Taxes

Energy Taxes decreased by \$29.6 million or 0.6%. The decline stems from a slight reduction in the consumption of gasoline and diesel fuel, partially offset by an increase in the consumption of aviation fuel.

Other Excise Taxes and Duties

Other Excise taxes and duties increased by \$41.1 million or 1.2%. This increase stems from higher duty revenues from beer and liquor production as well as higher revenues on automotive air conditioners.

Miscellaneous Charges

Miscellaneous charges increased by \$32.1 million or 3.9%. This was due to higher Air Travellers Security Charge revenues.

Employment Insurance Premiums

Employment Insurance Premiums increased by \$1,167.9 million or 6.5%. The increase reflects continued economic growth and is in line with the increase in source deduction receipts. There were also higher premiums and increased insurable earnings.

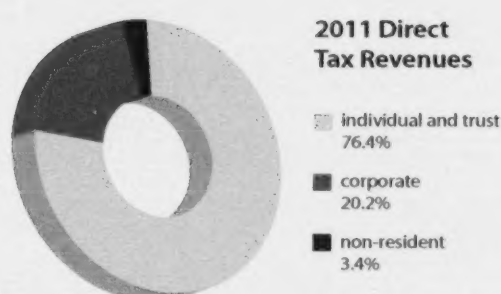
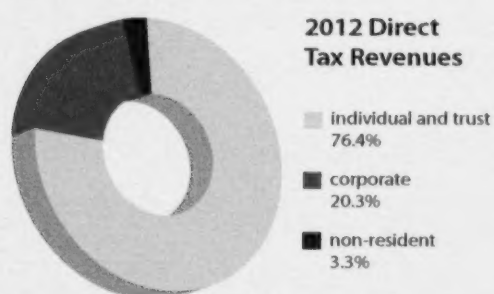
Interest, Penalties, and Other Revenues

Interest, penalties, and other revenues decreased by \$364.3 million or 9.0%. This reflects the imposition of court fines related to the tobacco settlement agreements along with a large corporate income tax reassessment in 2011. Prescribed interest rates were stable.

Interest Expense

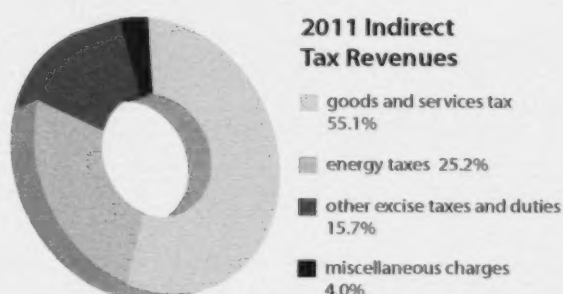
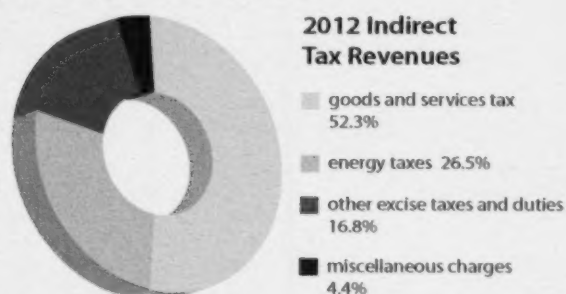
Interest expense increased by \$135.9 million or 24.2%. This was due to higher interest paid on certain corporate refunds.

figure 11 Direct Tax Revenues



As shown in figure 11, the largest component of Direct Tax Revenues is Individual and trust income tax, followed by Corporate income tax and Non-resident tax withholdings.

figure 12 Indirect Tax Revenues



As shown in figure 12, the largest component of Indirect Tax Revenues is GST, followed by Energy taxes, Other Excise taxes and duties, and Miscellaneous charges. The proportion of GST has declined due to the decrease in net GST assessed.

Revenues Administered on Behalf of the Provincial, Territorial Governments, First Nations, and the Canada Pension Plan

Provincial and Territorial Governments, First Nations, and Canada Pension Plan (\$000)	2012	2011	+/-	%
Income Tax – Individual and trust	52,980,312	48,021,244	4,959,068	10.3%
Income Tax – Corporate	13,323,379	12,810,324	513,055	4.0%
Harmonized Sales Tax	28,029,190	21,693,984	6,335,206	29.2%
Other Revenues	276,567	559,599	(283,032)	(50.6%)
Revenues Administered on behalf of Provincial and Territorial Governments and First Nations	94,609,448	83,085,151	11,524,297	13.9%
Pension Contributions, Interest and Penalties Administered on Behalf of the Canada Pension Plan	39,026,598	37,177,356	1,849,242	5.0%

Provincial, Territorial, and First Nations Revenues were \$94.6 billion in 2012, some \$11.5 billion higher than in 2011. Canada Pension Plan Revenues were \$39.0 billion in 2012; \$1.8 billion more than in 2011.

Income Tax Revenues – Individual and Trust

Individual and trust income tax revenues increased by \$4.9 billion, or 10.3%. The increase stems from continued economic growth and is in line with the increase in individual taxable income. Legislative changes in the province of Ontario, such as the restructuring of a tax credit to a benefit program and a lower surtax threshold also contributed to the increase.

Income Tax Revenues – Corporate

Corporate income tax revenues increased by \$513.0 million or 4.0%. This increase is due to higher corporate profits, partially offset by corporate tax cuts and the elimination of capital tax in Ontario.

Harmonized Sales Tax (HST)

HST revenues increased by \$6.3 billion or 29.2%. The increase is the result of a full year's impact after the implementation of the harmonized sales tax in Ontario and British Columbia (PSTAR) on July 1, 2010. On August 26, 2011 the Province of British Columbia announced that it will return to the provincial sales tax, and this change will be effective April 1, 2013. During this period, the Agency will continue to administer the HST in British Columbia. On April 18, 2012, the province of Prince Edward Island (PEI) announced that it has entered into an agreement with the government of Canada in order to bring PEI into the HST revenue allocation framework effective April 1, 2013.

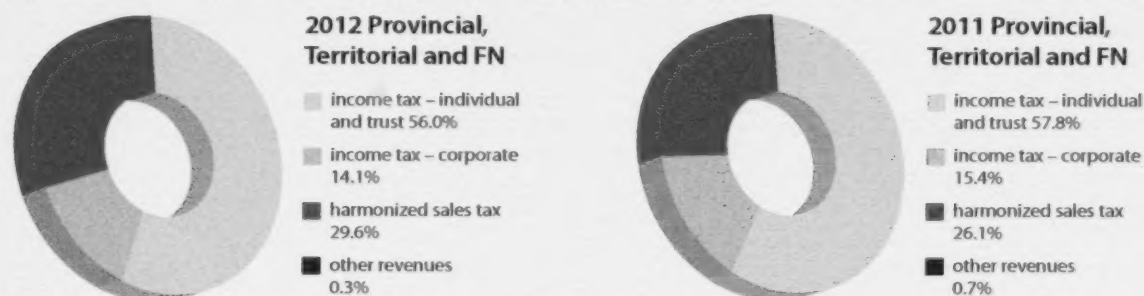
Other Revenues

Other revenues decreased by \$283.0 million or 50.6%, due to a one-time collection related to the tobacco civil settlement agreements in fiscal year 2011.

Revenues Administered On Behalf of the Canada Pension Plan

Canada Pension Plan revenues rose by \$1.8 billion or 5.0%. The increase reflects continued economic growth and is in line with the growth in source deduction receipts. There was also an increase in the contribution ceiling.

figure 13 Revenues Administered on behalf of the Provincial and Territorial Governments and First Nations



As shown in figure 13, Individual and trust income tax represented the largest component of revenues administered on behalf of the Provincial and Territorial governments, and First Nations. This is followed by Harmonized Sales Tax and Corporate Income Tax. The proportion of Individual and trust income tax decreased from the previous year, due to the impact of the full year of harmonized sales tax in Ontario and British Columbia.

Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments

Administered Expenses and Recoveries (\$000)	2012	2011	+/-	%
Federal Administered Expenses				
Child tax benefits	10,048,991	10,013,376	35,615	0.4%
Universal Child Care Benefits	2,677,419	2,642,485	34,934	1.3%
Children's Special Allowances	223,546	222,438	1,108	0.5%
Transfers to provinces for softwood lumber products export charges	213,871	220,735	(6,864)	(3.1%)
Provision for doubtful accounts	3,711,275	3,344,307	366,968	11.0%
Total Federal Administered Expenses	16,875,102	16,443,341	431,761	2.6%
Federal Administered Recoveries				
Old Age Security benefits	(1,159,270)	(1,061,615)	(97,655)	9.2%
Employment Insurance benefits	(235,619)	(224,929)	(10,690)	4.8%
Total Federal Administered Recoveries	(1,394,889)	(1,286,544)	(108,345)	8.4%
Net Expenses and Recoveries Administered for the Federal Government	15,480,213	15,156,797	323,416	2.1%
Provincial and Territorial Administered Expenses				
Ontario Sales Tax Transition Benefit	1,372,014	2,619,861	(1,247,847)	(47.6%)
Sales tax credits	1,587,816	1,146,406	441,410	38.5%
Family benefit programs	1,047,658	1,063,553	(15,895)	(1.5%)
Ontario Energy and Property Tax Grant	794,966	-	794,966	NA
Ontario Senior Homeowners' Property Tax Credit	219,682	199,828	19,854	9.9%
British Columbia Low Income Climate Action Tax Credit	184,590	169,959	14,631	8.6%
Net Expenses Administered for Provinces and Territories	5,206,726	5,199,607	7,119	0.1%
Provision for doubtful accounts Administered for the Canada Pension Plan	102,339	108,073	(5,734)	(5.3%)
Total Net Administered Expenses and Recoveries	20,789,278	20,464,477	324,801	1.6%

Net Federal Expenses and Recoveries were \$15.5 billion in 2012, \$323.4 million higher than in 2011. Net Provincial and Territorial Expenses were \$5.2 billion, \$7.1 million higher than in 2011.

Federal Administered Expenses

Federal Administered Expenses rose by \$431.7 million or 2.6%. This stems from a higher provision for doubtful accounts that increased due to higher write-offs.

Federal Administered Recoveries

Federal Administered Recoveries rose by \$108.3 million or 8.4% due to higher Old Age Security (OAS) recoveries. This increase stems from a rise in the number of OAS benefit recipients, higher entitlements, and a growth in taxable income.

Net Expenses Administered for Provinces and Territories

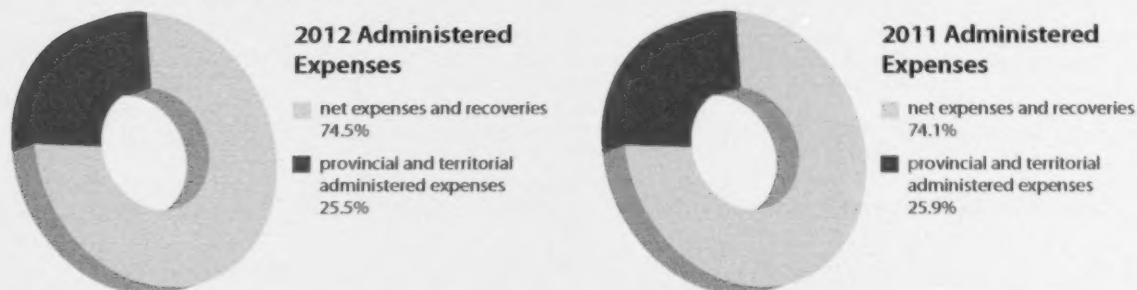
Net Expenses Administered for Provinces and Territories increased by \$7.1 million or 0.1%. The increase is due to the newly implemented Ontario Energy and Property Tax Credit and to the impact of a full year of the Ontario and British Columbia

sales tax credits. This was partially offset by the reduced cost of the Ontario Sales Tax Transition Benefit, which had its third of three payments in 2012.

Provision for Doubtful Accounts Administered for the Canada Pension Plan

The provision for doubtful accounts administered for the Canada Pension Plan (CPP) decreased by \$5.7 million or 5.3%. This decrease was due to a reduction in bad debt expenses, partially offset by higher CPP write-offs.

figure 14 Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments



As shown in figure 14, Net Expenses and Recoveries Administered for the Federal Government made up most of the Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments. The proportion of Federal Administered Expenses and Recoveries has increased due to the higher provision for doubtful accounts. The cost of the new Ontario Energy and Property Tax Credit as well as the increase in the Ontario and British Columbia sales tax credits were offset by the decrease in the Ontario Sales Tax Transition Benefit.

Summary of the assessment of effectiveness of the systems of internal control over financial reporting and the action plan of the Canada Revenue Agency

Fiscal year 2011-2012

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting.

Note to the reader

In accordance with the Treasury Board Policy on Internal Control, departments and agencies are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments and agencies are expected to conduct annual assessments of their system of ICFR, establish action plans to address any necessary adjustments, and attach to their Statements of Management Responsibility a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud, and mismanagement; and
- applicable laws, regulations, and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process of identifying key risks, assessing the effectiveness of associated key controls and adjusting them as required, as well as monitoring the system in support of continuous improvement. As a result, the scope, pace, and status of departmental and agency assessments of the effectiveness of their systems of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

The annual assessment of ICFR contemplated in the Treasury Board Policy on Internal Control is intended to be a management self-assessment led and administered by the Chief Financial Officer and supported by senior management. However, key external audit findings and results can contribute to this self-assessment. In the case of the CRA, federal-provincial tax collection agreements contain an audit provision requiring the Auditor General to periodically perform a review of the CRA's internal controls relevant to the financial information provided under the agreements, and to report the results to provincial and territorial finance Ministers. To fulfill these requirements, the Office of the Auditor General periodically audits those aspects of the CRA's self-assessment of ICFR that are relevant to the tax collection agreements. The portion of CRA's ICFR that is subject to audit under the agreements and the results of the control audits performed recently by the Office of the Auditor General are described in Sections 3 and 4 of the Annex.

1. Introduction

This document is part of the CRA's Statement of Management Responsibility Including Internal Control over Financial Reporting for the fiscal year 2011-2012. As required by the Treasury Board Policy on Internal Control, this document provides summary information on the measures taken by the CRA to maintain an effective system of ICFR. In particular, it provides

summary information as of March 31, 2012 on the assessments the CRA conducted including progress, results, and related action plans. Some financial highlights pertinent to understanding the CRA's unique control environment are also provided.

1.1 Authority, mandate, and program activities

The CRA's mandate is based on a framework of complex laws enacted by Parliament and by provincial and territorial legislatures. To fulfill its mandate, the CRA administers a range of taxes, benefits, and related programs aimed at ensuring that taxpayers meet their obligations and receive their entitlements, and at protecting Canada's tax base. For more detailed information on the CRA's authority, mandate, and activities, refer to the Annual Report to Parliament on the CRA website at <http://www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html> or to the Report on Plans and Priorities on the CRA website at http://www.cra-arc.gc.ca/gncy/prfrmnc_rpts/menu-eng.html.

1.2 Financial highlights

The CRA's key results for fiscal year 2011-2012 are as follows:

Canada Revenue Agency activities

- Total expenses of \$4,758 million, 74% of which is personnel expenses.
- Total assets of \$601 million and liabilities of \$1,146 million. Capital assets comprise 67% of the CRA's total assets. Employee severance benefits comprise about 64% of total liabilities and accounts payable, and accrued liabilities comprise about 13%.

Administered activities

- Total administered revenues of about \$331 billion, composed of \$198 billion in revenue administered under tax and other related federal legislation on behalf of the Government of Canada, \$94 billion in revenue administered on behalf of provincial, territorial, and First Nations governments under various Memoranda of Understanding and similar arrangements, and \$39 billion in revenue administered on behalf of the Canada Pension Plan.
- Total payments of about \$20.8 billion in benefits and credits administered under benefit programs and services on behalf of the Government of Canada and provincial and territorial governments.

The CRA's information technology (IT) capacity is also critical to its ability to deliver services to Canadians. This is a sizeable task which requires the involvement of two data centres which process up to 4 million transactions per hour, 7 mainframe computers, about 1,700 servers, and maintaining over 495 applications across a distributed computing environment covering more than 400 locations. Effective November 15, 2011, IT infrastructures services related to email, data centres and network services are provided through Shared Services Canada in partnership with the CRA.

The CRA's Finance and Administration Branch supports the delivery of CRA programs and services by providing sound advice, products, and services related to a number of key functions including financial administration, resource management, security, internal affairs, and administration. It also helps ensure compliance and accountability with related legislation, policies, and directives. Finance and Administration Branch activities are performed by a team of almost 2,500 employees, about 35% of whom are located in Headquarters and 65% in the regions. This team is integral to the effectiveness of the CRA's system of control over financial reporting, which encompasses two sets of financial statements: one for agency activities and one for administered activities. Also of importance to financial reporting, in particular to administered activities, are many of the procedures carried out as part of regional or Headquarters operations, such as collection, data entry, and processing of income tax returns, as well as support and development of a majority of the system applications the CRA uses. This makes the CRA's task of scoping, documenting, and assessing the related controls uniquely challenging.

1.3 Audited financial statements

As noted above, for financial reporting purposes, the activities of the CRA have been divided into two sets of financial statements: agency activities and administered activities. The Financial Statements - Agency Activities include those operational revenues and expenses that the CRA manages and utilizes in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered for someone other than the CRA, such as the federal, provincial and territorial governments, First Nations and other organizations.

The CRA has issued annual audited financial statements since 1999-2000 and has consistently received an unmodified opinion from the Auditor General of Canada.

1.4 Service arrangements relevant to financial statements

1.4.1 CRA reliance on other government service providers

The CRA relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

Common arrangements

- Public Works and Government Services Canada centrally administers salary payments and looks after items such as the calculation of general pay, payroll deductions, security of pay information, and automatic retroactive adjustments through the Regional Pay System.
- The Department of Justice provides legal advisory, litigation, and legislative services.
- The Office of the Auditor General of Canada provides auditing services.
- Shared Services Canada was created on August 4, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal departments and agencies. Effective November 15, 2011 the responsibility for email, data centre and network services, including associated resources, was transferred from the CRA to Shared Services Canada. The administration and delivery of these services were shared during the 2011-2012 transition period while Shared Services Canada was being established.

Specific arrangements

- Revenu Québec is responsible for the joint administration of the goods and services tax and Quebec sales tax for businesses in the Province of Quebec.

1.4.2 CRA services that other departments and agencies rely on

Specific arrangements

- The CRA provides information technology services to the Canada Border Services Agency's operational and financial systems and performs collection services on their behalf for duties, taxes, fees, penalties, or other amounts owing under the *Customs Act*, *Customs Tariff*, *Excise tax Act*, *Excise Act, 2001*, and/or related regulations.
- The CRA provides information to the Department of Finance to use in determining taxes receivable and payable under tax collection agreements with provincial, territorial, and Aboriginal governments.
- The CRA provides services to Human Resources and Skills Development Canada to collect its accounts receivable and to administer a number of activities for the Canadian Pension Plan and Employment Insurance Operating Account.

1.5 Significant changes in fiscal year 2011-2012

- Under agreements reached with the Government of Canada, the CRA started to administer the harmonized sales tax in Ontario and British Columbia on July 1, 2010. On August 26, 2011, British Columbia announced that it will return to the provincial sales tax on April 1, 2013. Until then, the CRA will continue to administer the harmonized sales tax for British Columbia. Shortly after the end of fiscal year 2011-2012, on April 18, 2012, the province of Prince Edward Island announced that it has entered into an agreement with the Government of Canada to bring Prince Edward Island into the harmonized sales tax revenue allocation framework effective April 1, 2013.
- Effective September 5, 2011, Mr. Mark Perlman was appointed to the position of Deputy Assistant Commissioner and Agency Comptroller, Finance and Administration Branch.
- Effective October 3, 2011, Mr. Bill Jones was appointed to the position of Deputy Commissioner of the CRA.
- Effective November 15, 2011, Shared Services Canada is responsible for controlling and supervising the CRA's email, data centre, and network services and has ownership of relevant assets. Since Shared Services Canada came into being, it has been operating with the CRA under a business continuity framework that identifies how work and services were to continue for the remainder of the 2011-2012 fiscal year. This framework is being extended until March 31, 2013, to allow for a sufficient transition period.

2. CRA's control environment relevant to ICFR

The CRA recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining an effective system of ICFR and are well equipped to exercise these responsibilities effectively. The CRA's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key positions, roles, and responsibilities

This section explains the CRA's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Commissioner - The Commissioner and Chief Executive Officer (CEO) of the CRA, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Commissioner chairs the Agency Management Committee, sits on the CRA Board of Management, and attends meetings of the Audit Committee.

Chief Financial Officer - The Chief Financial Officer (CFO) reports directly to the Commissioner and provides leadership for the coordination, coherence, and focus of efforts to design and maintain an effective and integrated system of ICFR, including its annual assessment. In this role, the CFO chairs the CRA's CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

CEO/CFO Certification Steering Committee - This Committee is chaired by the CFO and composed of Assistant Commissioners with significant responsibility for ICFR including the Chief Information Officer, the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, and the Chief Risk Officer. It is responsible for reviewing the progress and results of the CRA's ICFR assessment process and approving action plans to address significant control issues.

Audit Committee of the Board of Management - The Audit Committee helps the Board of Management fulfill its oversight responsibilities by reviewing the CRA's accounting framework, internal and external audit results, financial and performance information, internal controls and financial risks, and compliance with financial and environmental legislation. On the recommendation of the Audit Committee, the Board approves the CRA's annual financial statements. The Commissioner, the CFO, and the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, as well as a

representative of the Office of the Auditor General, each attend Audit Committee meetings. The Audit Committee was established in 1999 and is composed of five external members who are independent of the CRA.

Agency Management Committee - As the sole decision-making Committee in the CRA, this committee oversees program development and delivery, as well as the day-to-day business operations of the CRA and all associated risks. The Committee reviews, approves, and monitors the corporate risk profile.

Chief Audit Executive - The Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, reports directly to the Commissioner and provides, through an effective internal audit function, independent and objective assurance on the CRA's risk management, internal control, and governance practices. In this role, the Chief Audit Executive is a member of the CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

Chief Risk Officer - The Chief Risk Officer and Assistant Commissioner of the Enterprise Risk Management Branch reports directly to the Commissioner and oversees the CRA's enterprise risk management function designed to provide sound risk information for use in decision-making at the corporate, operational, and project levels.

Internal Controls Division - The Internal Controls Division within the Finance and Administration Branch supports the CRA's efforts to design and maintain an effective and integrated system of ICFR by documenting and testing, in collaboration with information technology and business process control owners, the adequacy of ICFR and reporting results to the CEO/CFO Certification Steering Committee, the Commissioner, and the Audit Committee of the Board. If applicable, the Division also reports information on action plans to strengthen controls.

Senior managers - Senior managers in charge of services and program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

2.2 Key measures taken by the CRA

The CRA also helps to ensure its control environment remains effective in mitigating financial reporting risks by promoting ethical conduct and through upholding its commitment to competence, its governance and organization structure, its enterprise risk management function, and the systems and processes that help ensure relevant information is communicated to appropriate individuals accurately and on a timely basis. Key elements and activities are listed below.

- CRA's Code of Ethics and Conduct.
- Performance management system that formalizes management's commitment to values and ethics.
- An integrity framework composed of policy instruments, programs, and processes designed to reinforce a culture of integrity.
- Competency based human-resources system.
- A dedicated division on internal control.
- An independent and knowledgeable audit committee that is actively involved in overseeing the CRA's ICFR.
- An internal audit function and risk-based audit plan.
- An integrated enterprise risk management function, led by the Chief Risk Officer who reports directly to the Commissioner/CEO.
- A formal information technology strategy that guides information technology sustainability and development.
- The Internal Disclosures Office which provides a confidential channel through which employees can disclose wrongdoing.

- A delegated authorities matrix which is regularly reviewed and updated.
- A formal learning policy and annual individual learning plan process.

3. Assessment of CRA's system of ICFR

The CRA's financial statements have been audited, as required under the *Canada Revenue Agency Act*, by the Office of the Auditor General since 1999-2000. In parallel, the Audit Committee of the Board and CRA senior management have been providing increased oversight of the preparation and presentation of financial information including reviewing information regarding the design and effectiveness of its system of ICFR as they relate to the CRA's administered and agency activities. The objective of these reviews is to obtain greater assurance that significant financial reporting risks are being properly mitigated and our system of ICFRs is being adequately updated, tested and monitored.

In addition to the assessments that are conducted in accordance with the TB Policy on Internal Control, the CRA must also conduct assessments and undergo audits of a portion of its ICFR on Individual (T1), Corporate (T2) and Estate and Trust (T3) income tax programs under provisions outlined in the tax collection agreements between the federal government and the provincial and territorial governments. These assessments are audited by the Office of the Auditor General in accordance with the standards set out in the Canadian Institute of Chartered Accountants Handbook under the Canadian Standard on Assurance Engagements 3416 (formerly Section 5970), the guidance for audits of controls at a service organization. Audit results are reported to provincial and territorial governments to provide independent, audit-level assurance that the controls at the CRA that support the administration and reporting of provincial and territorial income tax revenue are properly designed to mitigate key risks and are operating effectively. The reports are intended to be used by provincial and territorial ministries, and their auditors, and are not public documents. However, the high level results of these audits are included in this document as they related to a key component of the CRA's system of ICFR related to administered activities.

To date the CRA has issued three Section 5970 control reports regarding the design of its ICFRs. The first two related to the T2 program as at March 31, 2007 and November 30, 2008, and the third was for the T1 program as at November 30, 2010. The fourth controls report relates to the operating effectiveness of the T2 program, and is currently being prepared for audit by the Office of the Auditor General during the 2012-2013 fiscal year.

3.1 Assessment baseline

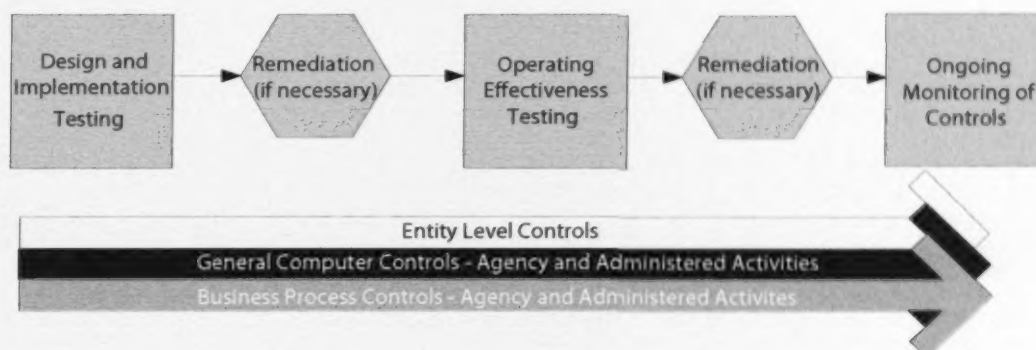
Consistent with the Treasury Board Policy on Internal Control, the CRA has implemented a systematic **risk-based and multi-year assessment** plan of the design and operating effectiveness of its system of ICFR.

Through **design effectiveness**, the CRA will ensure that key controls relevant to financial reporting have been properly identified, documented, and in place and that they are aligned with the risks they aim to mitigate and that any remediation is addressed appropriately and in a timely manner. This includes ensuring appropriate mapping of key processes and information technology systems to the main financial statement accounts or class of transactions.

Through **operating effectiveness**, the CRA will ensure that the application of key controls over financial reporting has been tested over a defined period, they are working as intended and that any required remediation is addressed appropriately and in a timely manner.

Such testing covers all agency level controls which include corporate or entity, general computer and business process controls.

Testing of the design and operating effectiveness of key controls over financial reporting will lead to ensuring the **on-going monitoring** and continuous improvement of the CRA's system of ICFR.



3.2 Scope of CRA assessment as of March 31, 2012

Scope

In order to define the scope of its ICFR assessment, the CRA evaluates the main accounts and line items used in preparing the agency activities and administered activities financial statements to determine where there are risks that, individually or in combination with others, could reasonably result in a material misstatement.

Based on this evaluation, the following key business processes are currently in scope:

Agency activities financial statements

Business Process

- Financial close and reporting
- Fixed assets
- Payroll
- Operating expenditures (procurement to pay)
- Budgeting and projections

Administered activities financial statements

Business Process

- T1 individual income tax (includes unapplied taxes and source deductions)
- T2 corporation income tax
- T3 trust income tax
- Non-resident income tax
- Goods and services tax/harmonized sales tax (GST/HST)
- Excise taxes and duties
- Benefits

Control frameworks

The CRA uses the Committee of Sponsoring Organizations (COSO) framework to assess the design effectiveness of its system of internal controls, since it is the most widely used model of control for purposes of assessing ICFR. The COSO framework is based on five interrelated components of control. Each component contains a number of principles and attributes that an organization's ICFR may be assessed against: control environment, risk assessment, control activities, information systems and communication, and monitoring.

Because the COSO only provides limited guidance to help organizations establish and evaluate information technology controls, the CRA uses the COBIT (Control Objectives for Information and related Technology) for SOX (Sarbanes-Oxley Act of 2002) framework to document and assess the design of its information technology controls that are relevant to financial reporting.

4. Progress and assessment results as of March 31, 2012

This section summarizes the CRA's key assessment results from the design and operating effectiveness testing completed to date. In accordance with the plan published in the 2010-2011 Annex, the CRA completed the following activities for the 2011-2012 fiscal year.

Agency activities financial reporting

An assessment of the operating effectiveness of key controls over the five business processes related to financial reporting on agency activities as well as relevant application controls and information technology general controls for the Corporate Administrative System, the purchasing system (Synergy), and the budget tracking system.

- As a result of this review, the CRA identified areas for improvement and developed action plans to address findings on key controls related to segregation of duties and the design and management of access profiles.

Administered activities financial reporting

Further to the requirements of the tax collection agreements, the Office of the Auditor General completed its audit of the CRA's description of the design effectiveness of the individual (T1) income tax program as assessed by the CRA as of November 30, 2010. The audit included testing 88 entity level controls, 54 information technology controls over 44 processing systems, and 102 business process activities. The audit results confirmed that the CRA needs to enhance the design of certain key controls in the following areas:

- Documentation: Greater consistency in the quality and availability of documentation for audit trail purposes.
- Information technology general controls: Strengthen controls related to access and change management.
- Segregation of duties: Strengthen access provisioning practices as they relate to segregation of duties, and strengthen business process controls related to the design and management of access profiles.

The CRA's internal audit function completed an assessment of the operating effectiveness of controls related to the corporate (T2) income tax program. Management intends to use the assessment results to identify and plan any adjustments needed to enhance the effectiveness of these controls in preparation for the Auditor General's next controls audit under the tax collection agreements that will be completed in accordance with the Canadian Standard on Assurance Engagements 3416 auditing guidelines.

These reviews, including the Auditor General's report, included entity level control assessments and confirmed that the CRA continues to have a strong system of entity level controls.

5. CRA's action plan

This section summarizes how the CRA is addressing the results of control assessment activities and its plans for completing the assessment of the design and operating effectiveness of its system of internal control.

5.1 Progress as of March 31, 2012

Agency activities financial reporting

In 2011-2012, CRA management substantially advanced its action plans to address the results of its 2010-2011 assessment of the design effectiveness of its controls over agency activities financial reporting, including:

- drafting a policy to clarify and reinforce roles and responsibilities of system owners for the design and management of access profiles, which will be issued in 2012-2013;
- taking measures to improve documentation of review and monitoring activities for audit trail purposes; and
- developing a long-term strategy to strengthen and automate the management of access provisioning throughout the CRA.

Administered activities financial reporting

In 2011-2012, the CRA addressed a good percentage of the findings from the Auditor General's audit of controls relating to the individual (T1) income tax program and made substantial progress on the following items:

- strengthening procedures for documenting review and monitoring activities related to non-routine assessments and reassessments for audit trail purposes;
- strengthening procedures for managing system changes; and
- clarifying roles and responsibilities to ensure access profiles are properly designed and monitored to address segregation of duty and access issues.

As result of the T1 audit findings, the scope of the long-term strategy for strengthening access management has been expanded in relation to segregation of duties. The strategy aims to standardize the business rules and automate how access profiles are provided and managed throughout the CRA.

Over 85% of the findings raised during the corporate (T2) income tax program design effectiveness audits conducted in 2007 and 2008 have been fully remediated and the remaining issues will be substantially remediated in 2012-2013.

5.2 Action plan for the next fiscal year and subsequent years

Entity level controls

The CRA's assessment efforts to date have revealed that overall the CRA has a strong and effective system of entity level controls that constitutes an important component of the CRA's ICFR for both agency activities and administered activities. Given the significance of entity level controls for the overall assessment of the effectiveness of ICFR, the CRA will continue to monitor them annually based on risk, by conducting self-assessment activities, internal audits, and Office of the Auditor General controls audits, to obtain assurance that they continue to be effective.

Agency activities financial reporting

In 2012-2013, the CRA intends to make significant progress on its action plans to strengthen the operating effectiveness of its controls, and launch a CRA-wide multi-year project to address its access management needs over the long term.

The CRA will move into an ongoing annual ICFR monitoring program that will test items requiring remediation and all new or changed controls, and will perform various other tests based on its annual risk ranking exercise.

Administered activities financial reporting

In 2012-2013, the CRA will prepare a description and management assertion pertaining to the operating effectiveness of its controls over the corporate (T2) income tax program in the context of the tax collection agreements, based on the results of its 2011-2012 self-assessment. The CRA expects that the Office of the Auditor General will audit this description in accordance with the new Canadian Standard on Assurance Engagements 3416. Action plans for assessing the remaining administered activity business processes for the period of 2012-2013 to 2015-2016, as well as the ongoing monitoring of the agency activity controls, are detailed in the table below.

The approach and timing for assessing the operating effectiveness of controls over the T1 program, as well as for assessing both the design and operating effectiveness of the ICFR for the remainder of the CRA's administered activities including IT general controls and application level IT controls, depend on a number of factors, including:

- plans currently under development to redesign the business processes and systems related to the T1 program;
- significant shifts in the CRA's program delivery agenda (e.g., if the CRA assumes responsibility for the implementation and administration of new federal, provincial, territorial, or First Nations tax, benefit, or credit programs);
- developments in the governance model that will apply to Shared Services Canada's providing information technology services on CRA's behalf after the transition period and, in particular, Shared Services Canada's approach to complying with the Policy on Internal Control in assessing general computer controls that are relevant to the CRA and government-wide financial reporting;
- the CRA's plans and progress in implementing business transformation initiatives and other government-wide priorities;
- changes in third-party requirements (including, but not limited to, the Office of the Auditor General, Internal Audit, or Treasury Board); or
- other developments that exert significant pressure on program and information technology staff's time and capacity.

In 2011-2012, CRA management evaluated the level of effort involved in assessing the operating effectiveness of its system of internal control and used this information to establish the next three-year plan, summarized in the following table.

It is important to note that certain variables, including those described in the preceding paragraphs, may affect the CRA's ability to complete this work as planned.

The CRA updates this plan annually to confirm the feasibility of the key deliverables and to take into account any new or changed financial reporting risks.

This table provides an overview of the CRA's plans in terms of the four following key ICFR assessment stages: document, assess design effectiveness, assess operating effectiveness, and transition to a program of ongoing monitoring.

Assessment type	Document framework	Assess design effectiveness	Assess operating effectiveness	Ongoing monitoring
Agency activities	Completed 2009-2010	Completed 2010-2011	Completed 2011-2012	Starting in 2012-2013: annually test new, changed, remediated controls, and test high risk controls on a 3-year rotational basis
Administered activities				
T2 corporate income tax	Completed 2007-2008	Completed 2009-2010	2011-2012 to 2013-2014	To be determined
T1 individual income tax	Completed 2009-2010	Completed 2010-2011	To be determined	
T1 unapplied taxes/source deductions	2012-2013	2013-2014 to 2014-2015		
T3 trust income tax	2012-2013 to 2013-2014	2014-2015 to 2015-2016		
Goods and services tax	2012-2013	2013-2014 to 2014-2015	To be determined	
Non-resident income tax	To be determined			
Excise tax				
Benefits				

Note: The dates planned for the T1, T2, and T3 assessments also include the Office of the Auditor General audits and publishing the Canadian Standard on Assurance Engagements 3416 reports for all activities related to tax collection agreements.

Canada Revenue Agency –
Unaudited Supplementary
Financial Information

Financial Performance Information – Parliamentary Appropriations

Introduction

This section of the Canada Revenue Agency (CRA) *Annual Report to Parliament 2011-2012* provides the details of the CRA's resource management performance for the purpose of reporting to Parliament on the use of appropriations in 2011-2012. This complements the information provided in the spending profile sections under each chapter and satisfies the reporting requirements set for departmental performance reports.

Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and, in this section, the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the Statement of Operations and Agency Net Financial Position – Agency Activities on page 83 includes certain items such as services provided without charge from other government agencies and departments. A reconciliation can be found in note 3 on page 90.

CRA financial information

Activities of the Canada Revenue Agency

Canada Revenue Agency	2011-2012 (in thousands of dollars)
Main Estimates ¹	4,293,046
Planned Spending ²	4,293,803
Total Authorities ³	4,610,141
Actual Spending	4,351,292

¹ Spending authorized by Parliament at the beginning of the fiscal year.

² Main Estimates authorities plus other amounts anticipated to be authorized during the fiscal year.

³ Total spending authorized by Parliament during the fiscal year.

The Financial Statements - Agency Activities reports \$3,913.6 million as total Parliamentary appropriations used (note 3 on page 90 shows the reconciliation to the net cost of operations). The difference from the \$4,351.3 million reported in this section is explained by the following three items reported in the Financial Statements - Administered Activities: the statutory disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*, \$213.9 million; the Children's Special Allowance payments, \$223.5 million; and other miscellaneous items, \$0.3 million.

Overview

For 2011-2012, Parliament approved \$4,293.0 million through the Main Estimates, as shown in the CRA's *2011-2012 Report on Plans and Priorities*.

The 2011-2012 Main Estimates were adjusted to include:

- \$178.0 million for the carryforward from 2010-2011;
- \$101.4 million for maternity and severance payments;

- \$73.9 million for increased disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*;
- \$19.1 million for the implementation of various tax measures announced in the 2011 Federal Budget;
- \$14.8 million for increased Respendable Revenue mainly to provide services to the Canada Border Services Agency;
- \$6.2 million to begin the upgrade of the personal income tax processing system;
- \$1.5 million for Court Awards and Crown Assets Disposal;
- \$1.0 million for increased Government advertising campaigns; and
- \$0.3 million due to other miscellaneous items.

These increases were offset by the following reductions:

- \$72.3 million for the transfer to Shared Services Canada of e-mail, data centre and network responsibilities;
- \$3.5 million for decreased statutory Children's Special Allowance payments;
- \$3.2 million for decreased employee benefits plan costs; and
- \$0.1 million transferred to the Treasury Board Secretariat to support the National Managers' Community.

This resulted in total approved authorities of \$4,610.1 million for 2011-2012, representing an in-year increase of 7.4% over the Main Estimates.

Of the \$4,610.1 million total authority, CRA's actual spending totalled \$4,351.3 million resulting in \$258.8 million remaining unexpended at year-end. After deducting unused resources related to Government advertising campaigns and a frozen allotment for the Foreign Investment Entities and Non-Resident Trusts legislative initiative which has not yet received Royal Assent, the remaining \$248.3 million is available for use by the CRA in 2012-2013 under its statutory two-year spending authority. This amount represents 5.4% of the total authority.

The CRA's two-year spending authority enables the CRA to be more strategic in its use of public funds by taking a multi-year view of plans and budgets. The financial flexibility in 2011-2012 was somewhat higher than usual due to restraint measures introduced by the CRA during the latter half of the fiscal year in response to the Operating Budget freeze implemented by the Government in Budget 2010. This increased carryforward was part of the CRA's strategy to address unfunded operating pressures in 2012-2013, including previously approved salary increases for employees.

Revenues administered by the Canada Revenue Agency

Total revenues administered by the CRA amount to some \$332.0 billion in 2011-2012, an increase of 6.6% from the \$311.3 billion administered in 2010-2011.

	2011-2012	2010-2011
	(in thousands of dollars)	
Federal Government	198,323,243	191,023,845
Provincial, Territorial Governments and First Nations	94,609,448	83,085,151
Canada Pension Plan	39,026,598	37,177,356
Total	331,959,289	311,286,352

Financial Performance Tables

Introduction

The following tables provide financial information about the performance of the Canada Revenue Agency (CRA) during the 2011-2012 fiscal year. The tables compare Main Estimates and Planned Spending, as shown in the *2011-2012 Report on Plans and Priorities*, with total authorities at year-end and actual expenditures for the fiscal year.

The information is presented at the CRA level, the Program Activity level, as well as by authority and type of revenue and expense.

The following tables can be found on the CRA web site at: http://www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html

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Policy on Service Standards for External Fees – Taxation Statistical Analyses and Data Processing Fee

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Details on Project Spending

Details on Transfer Payment Programs

Children's Special Allowance Payments (Statutory)

Disbursements to Provinces under the *Softwood Lumber Products Export Charge Act, 2006* (Statutory)

Performance Summary

(in thousands of dollars)		2011-2012			
Program activity	2010-2011 Actual Spending	Main Estimates	Planned Spending	Total Authorities	Actual Spending
Strategic Outcome: Taxpayers meet their obligations and Canada's revenue base is protected					
Taxpayer and business assistance (PA1) ¹	551,883	408,032	408,190	535,703	530,542
Assessment of returns and payment processing (PA2) ²	683,036	602,855	602,949	679,696	642,057
Accounts receivable and returns compliance (PA3)	511,567	439,003	439,417	529,224	521,505
Reporting compliance (PA4)	1,071,359	960,180	960,180	1,101,008	1,055,758
Appeals (PA5)	164,065	131,792	131,819	182,837	175,064
Strategic Outcome: Eligible families and individuals receive timely and correct benefit payments					
Benefit programs (PA6) ³	369,838	356,804	356,806	385,717	369,783
The following Program Activity supports all strategic outcomes within the organization					
Internal services (PA7) ⁴	1,064,087	1,391,125	1,391,188	1,192,400	1,053,851
Strategic Outcome: Taxpayers and benefit recipients receive an independent and impartial review of their service-related complaints					
Taxpayers' ombudsman (PA9)	2,730	3,255	3,255	3,557	2,731
Total⁵	4,418,566	4,293,046	4,293,803	4,610,141	4,351,292
Less:					
Non-Tax Revenues					
Respendable Revenue –Pursuant to Section 60 of the <i>Canada Revenue Agency Act</i>	245,118	230,688	230,688	245,459	245,459
Plus:					
Cost of services received without charge	261,489	N/A	277,799	N/A	321,788
Net Cost of CRA⁶	4,434,937	N/A	4,340,914	N/A	4,427,620

Note: Numbers may not add due to rounding

¹ Includes the Softwood Lumber statutory disbursements (\$220.7 million in 2010-2011 and \$213.9 million in 2011-2012).

² Includes payments to the Agence du revenu du Québec for the administration of the Goods and Services Tax in that province (\$142.2 million in 2010-2011 and \$141.1 million in 2011-2012).

³ Includes a) Relief for Heating Expenses (program announced in 2000) (\$4.0 thousand in 2010-2011 and \$3.4 thousand in 2011-2012); b) Energy Costs Assistance Measures expenses (program announced in the Fall of 2005) (\$4.7 thousand in 2010-2011 and \$1.5 thousand in 2011-2012); and c) Statutory Children's Special Allowance payments (\$222.4 million in 2010-2011 and \$223.5 million in 2011-2012).

⁴ For planning purposes, the budget for real property accommodations is shown in Internal Services; at year-end, the actuals are attributed to all other programs activities.

⁵ Total Authorities and Actual Spending exclude amount deemed appropriated to Shared Services Canada

⁶ Following a modification to the Treasury Board Accounting Standard 1.2 issued in March 2011, Non-Respendable Non-Tax Revenues, which were shown in previous reports, cannot be used to discharge the CRA's liabilities. As a result, Non-Respendable Non-Tax Revenues are considered to be earned on behalf of the Government of Canada. Therefore, commencing in 2010-2011, the net cost of operations will not be reduced by the Non-Respendable Non-Tax Revenues.

Voted and Statutory Items

(in thousands of dollars)		2009-2010	2010-2011	2011-2012	
Truncated Vote or Statutory Authority Wording		Actual	Actual	Main Estimates	Actual ¹
1	Operating expenditures, contributions and recoverable expenditures on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	3,297,434	3,170,640	3,083,906	3,158,001
5	Capital expenditures and recoverable expenditures on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	-	89,496	151,346	51,689
(S)	Minister of National Revenue – Salary and motor car allowance	78	78	78	78
(S)	Spending of revenues received through the conduct of its operations pursuant to Section 60 of the <i>Canada Revenue Agency Act</i>	213,920	245,118	230,688	245,459
(S)	Contributions to employee benefit plans	469,401	466,012	460,028	456,860
(S)	Children's Special Allowance payments	215,264	222,438	227,000	223,546
(S)	Payments to private collection agencies pursuant to section 17.1 of the <i>Financial Administration Act</i>	3,286	2	-	4
(S)	Payments under the <i>Energy Costs Assistance Measures Act</i>	13	5	-	1
(S)	Statutory disbursements to Provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i>	205,545	220,735	140,000	213,871
(S)	Spending of proceeds from the disposal of Surplus Crown Assets	111	196	-	165
(S)	Court Awards	1,496	3,840	-	1,367
(S)	Prior Year Refunds	-	7	-	-
(S)	Other miscellaneous items	-	-	-	249
Total Canada Revenue Agency		4,406,548	4,418,566	4,293,046	4,351,292

Note: numbers may not add due to rounding.

¹ Excludes amount deemed appropriated to Shared Services Canada

Authorities approved after Main Estimates

The following table details the additional authorities approved for the Canada Revenue Agency after the tabling in Parliament of Main Estimates and reconciles with the Total Authorities shown on page 145.

	(in thousands of dollars)
2011-2012 Main Estimates	4,293,046
Adjustment to Contribution to employee benefit plans	757
Planned Spending (as reported in the 2011-2012 Report on Plans and Priorities)	4,293,803
Carryforward from 2010-2011	178,007
Severance payments, parental benefits and vacation credits	101,372
Implementation of various tax measures announced in the 2011 Federal Budget	19,059
Funding to begin the upgrade of the personal income tax processing system	6,216
Government advertising programs adjustment	1,000
Transfer to Shared Services Canada of email, data centre and network responsibilities	(72,266)
Transfer to Treasury Board Secretariat to support the National Managers' Community	(100)
Year-end adjustments to statutory authorities:	
Increased disbursements to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i>	73,871
Increased spendable revenue mainly to provide services to Canada Border Services Agency	14,772
Court awards	1,367
Crown assets disposals	165
Decreased employee benefits plan costs	(3,925)
Decreased Children's Special Allowance payments	(3,454)
Other minor adjustments	254
Total Authorities at year-end^{1,2}	4,610,141

¹ Excludes amount deemed appropriated to Shared Services Canada

² Numbers may not add due to rounding



If you need more information, email us at:

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